



**CHANGING LIVES.**  
We are Houston's Community College



**HOUSTON COMMUNITY COLLEGE**  
**Comprehensive Annual Financial Report**  
**& Single Audit Reports**

August 31, 2019 and 2018  
Houston, Texas





**HOUSTON COMMUNITY COLLEGE**

**Houston, Texas**

**Comprehensive Annual Financial Report**

**For the Years Ended**

**August 31, 2019 and 2018**

**Prepared by:**

**Finance and Administration**

HOUSTON COMMUNITY COLLEGE SYSTEM  
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# **INTRODUCTORY SECTION**

HOUSTON COMMUNITY COLLEGE SYSTEM  
ORGANIZATIONAL DATA  
FOR THE YEAR ENDED AUGUST 31, 2019

<u>BOARD OF TRUSTEES</u>		<u>Term Expires December 31,</u>
Dr. Carolyn Evans-Shabazz, <i>Chair</i>	District IV, Houston, Texas	2023
Dr. John P. Hansen, <i>Vice Chair</i>	District VI, Houston, Texas	2021
Zeph Capo, <i>Secretary</i>	District I, Houston, Texas	2019
David Wilson	District II, Houston, Texas	2019
Dr. Adriana Tamez	District III, Houston, Texas	2021
Robert Glaser	District V, Houston, Texas	2023
Neeta Sane	District VII, Houston, Texas	2019
Eva L. Loreda	District VIII, Houston, Texas	2021
Dr. Pretta VanDible Stallworth	District IX, Houston, Texas	2023

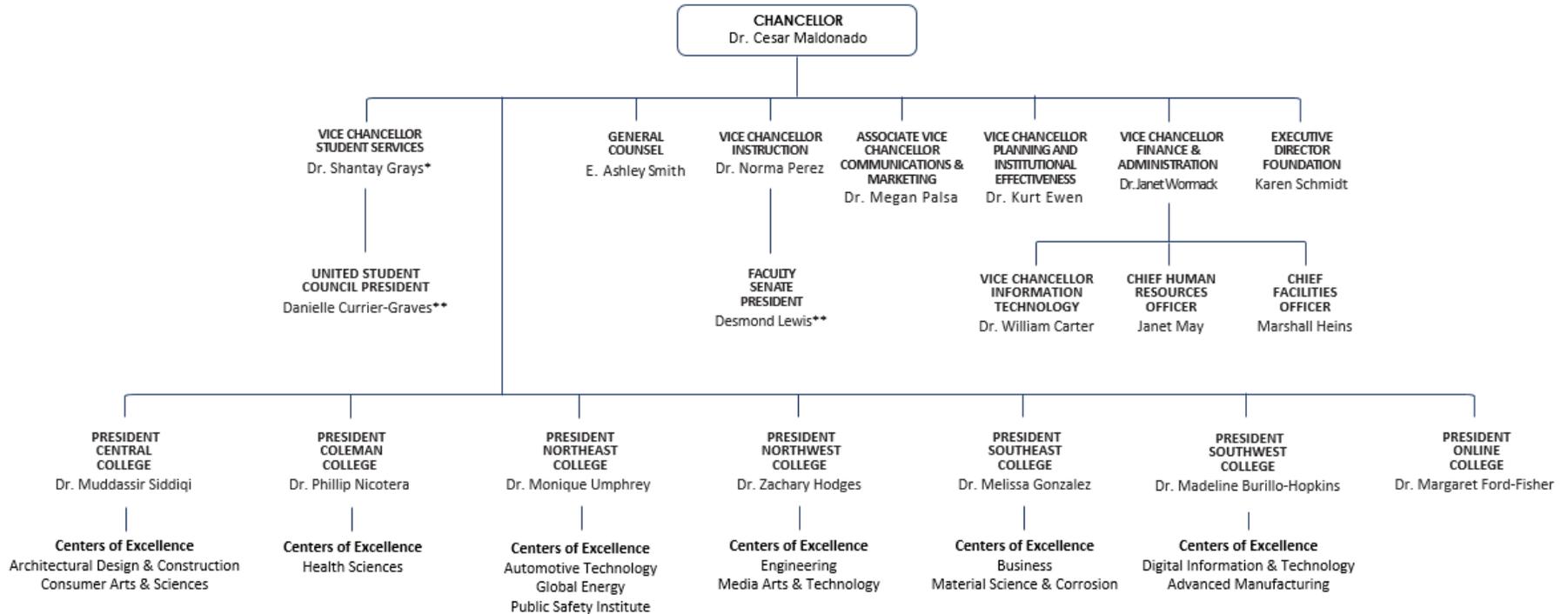
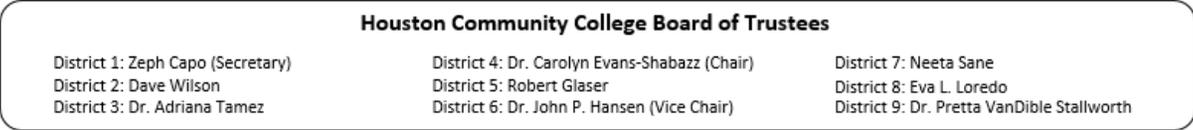
PRINCIPAL ADMINISTRATIVE OFFICERS

Cesar Maldonado, Ph.D., P.E.	Chancellor
Janet Wormack, Ed.D.	Vice Chancellor, Finance & Administration and CFO
Norma Perez, Ed.D.	Vice Chancellor, Instructional Services & Chief Academic Officer
William Carter, Ph.D.	Vice Chancellor, Information Technology
Shantay Grays, Ph.D.	Interim Vice Chancellor, Student Services
Kurt Ewen, Ph.D.	Vice Chancellor, Planning & Institutional Effectiveness
Muddassir Siddiqi, Ed.D.	President, Central College
Phillip Nicotera, MD	President, Coleman College
Monique Umphrey, D.M	President, Northeast College
Zachary Hodges, Ed.D.	President, Northwest College
Melissa N. Gonzalez, Ph.D.	President, Southeast College
Madeline Burillo-Hopkins, Ed.D.	President, Southwest College
Margaret Ford Fisher, Ed.D.	President, Online College
Janet May, M.A.	Chief Human Resources Officer
Marshall Heins, MBA	Chief Facilities Officer
E. Ashley Smith, J.D.	General Counsel
Carin Hutchins, MBA, CPA	Associate Vice Chancellor, Finance & Accounting
Megan Palsa, Ph.D	Associate Vice Chancellor, Communications and Marketing
Desmond Lewis, M.A.	Faculty Senate President
Karen Schmidt, MBA	Executive Director, HCC Foundation
Terrance Corrigan, CIA, CPA, CFE	Director, Internal Auditing
Danielle Currier- Graves	President, United Student Council



# HOUSTON COMMUNITY COLLEGE

## Organizational Chart As of August 31, 2019



All personnel on this chart are members of Chancellor's Council.

\* Denotes Interim Post

\*\* Denotes Rotating Post



To the HCC Board of Trustees:

I have the honor of submitting to the Houston Community College (HCC or System), the Board of Trustees (the Board) and to the citizens of our service area the HCC Comprehensive Annual Financial Report (CAFR) for the fiscal year beginning September 1, 2018 and ending August 31, 2019. HCC has strengthened its financial position in five short years through consistent and effective fiscal stewardship and financial reporting. The results included delivering more services to students and

increased economic viability in the Houston Area.

As the FY 2019 Comprehensive Annual Financial Report exemplifies, HCC is committed to and has achieved the fiscal responsibility expected of a publicly-funded institution.

- ✓ **Net Position.** Even with the implementation of GASB Statement No. 68 in FY 2015 and GASB Statement No. 75 in FY 2018, HCC's net position has increased from \$373.9 million at the end of FY 2014 to \$393.0 million at the end of FY 2019.
- ✓ **Debt Reductions.** Since FY 2015, HCC has accelerated payment of debt by \$19.1 million using excess cash, producing additional interest cost savings of \$9 million. Through five separate refinance transactions since FY 2014, the System achieved future cash-flow savings of \$39.7 million. HCC's outstanding debt has gone from a high of \$1.04 billion at the end of FY 2014 to a low of \$828.0 million at the end of FY 2019, reflecting the implementation of impactful debt-reduction strategies.
- ✓ **Days Cash on Hand.** In June 2018, the Board adopted a new financial reserves policy of 180 +/- 5% days cash on hand (COH) which allows for more financial reserves than the previous policy. From a historical perspective, HCC's days COH has consistently exceeded the threshold set by the new policy. At August 31, 2019, the days cash on hand is 234 which is an increase from 226 at August 31, 2018. In addition, HCC's days COH is strong relative to its large, Texas community college peers.
- ✓ **Excellence in Financial Reporting.** For 12 years, HCC has been a recipient of the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association. We expect this recognition to continue for the 13th year with HCC's FY 2019 CAFR.

In this rapidly changing Houston economic environment, HCC continues to be here for students who are looking for academic advancement and to dramatically impact individuals who are looking for a better quality of life. We have been able to accomplish many things together. A few of these achievements include:

- Increasing the three-year graduation rate from 13.5% to 21.3%; students who start at HCC are completing college at Texas public institutions at higher rates than ever before.
- Tripling articulation agreements with universities since 2014 creating more baccalaureate pathways for our students than ever before.
- Increased workforce and academic accreditations by 32% from 46 to 60 in 2018 to 2019.
- Workforce and academic placement rate is 89%, a 3% increase from previous years—this is the first increase since 2012.
- Managed the 2013, \$425 million Capital Improvements Plan – twelve facilities have been opened with two more (Central Culinary and North Forest Workforce) to be opened in early fiscal year 2020 – under budget and without sacrificing programs, delivering more resources to our communities.

We positively impact our local economy and provide critical services to the communities we serve. The numbers below from a third-party economic impact analysis reflecting fiscal year 2017-2018 tell the ongoing story of how we are creating a positive impact on our local economy and how we are supporting businesses, our students, and their families.

- HCC generated \$4.8 billion economic impact to the region.
- HCC supported nearly 52,000 regional jobs; that's one out of every 67 jobs in the region.
- HCC alumni created \$4.3 billion in added income.

Our willingness to push boundaries, create communities of scholars and encourage broad collaborations, all contribute to a more comprehensive picture of what makes HCC unique. These pieces, diverse and unique in their own way, play a crucial role in the mosaic of HCC.

I want to thank the Board and the HCC faculty and staff for their continued dedication to changing the lives of students by providing pathways to academic and workforce success that align our students' needs with industry's demands.

Sincerely,

A handwritten signature in black ink, appearing to read "Cesar Maldonado". The signature is fluid and cursive, with the first name "Cesar" being more prominent than the last name "Maldonado".

Cesar Maldonado, Ph.D., P.E.  
Chancellor



December 4, 2019

**To the Honorable Chair and Members of the Board of Trustees, Chancellor and the Citizens of Houston Community College's Service Area:**

The following Comprehensive Annual Financial Report (CAFR) of Houston Community College (HCC or the System) for the fiscal years ended August 31, 2019 and 2018 is hereby submitted for your review. The purpose of this report is to provide detailed information about the financial condition and performance of the System. Responsibility for its preparation and integrity of the financial information, the completeness and fairness of the presentation, including all disclosures, rest with the System. The reliability of the information contained in this CAFR is based upon a comprehensive framework of internal controls. Such internal controls are designed to provide reasonable, rather than absolute, assurance that the financial statements fairly present the financial position and results of operations of the System and are free of material misstatement.

***Comprehensive Annual Financial Report***

HCC's CAFR is prepared by the Division of Finance and Administration. The financial statements are prepared in accordance with Generally Accepted Accounting Principles (GAAP) as established by the Governmental Accounting Standards Board (GASB) and also comply with the Budget Requirements and Annual Financial Reporting Requirements for Texas Public Community Colleges as set forth by the Texas Higher Education Coordinating Board (THECB). The notes provided in the financial section are considered an integral part of the financial statements and are essential for fair and adequate disclosure of all information. Additionally, attention should be given to Management's Discussion and Analysis which provides the reader with a narrative introduction, overview and analysis of the financial statements.

***Reporting Entity***

HCC is a special-purpose governmental entity engaged solely in business-type activities. As such, the financial statement presentation combines all fund groups into a single column and resembles the format of a corporate presentation as defined by GASB.

The Houston Community College Foundation (Foundation) is reported as component unit of the System using a discrete presentation. This is in accordance with the criteria established by GASB Statement No. 61, The Financial Reporting Entity: Omnibus – An Amendment of GASB Statements No. 14 and 34 and GASB Statement No. 39, Determining Whether Certain Organizations are Component Units – An Amendment of GASB Statement No. 14.

***Organization and Governance Structure***

HCC was established as a public community college by the voters of the Houston Independent School District through a referendum on May 18, 1971. By 1977, HCC was accredited by the Southern Association of Colleges and Schools Commission on Colleges (SACSCOC). In 1989, HCC separated from HISD, establishing its own Board of Trustees and taxing authority.



HCC operates under the Constitution of the State of Texas and the Texas Education Code. It is governed by an elected nine-member Board (the Board) who serve without remuneration. The trustees are elected from single-member districts to staggered six-year terms and as a body, have final authority to determine and interpret the policies that govern HCC. The Board has oversight responsibility for the System's activities, limited only by the state legislature, the courts, and the will of the people as expressed in Board elections. Official Board action is taken in meetings that comply with the Texas Open Meetings Act.

Regular meetings of the Board are held on the first Wednesday of each month at the System Administrative Building, 3100 Main Street, 2nd Floor Auditorium, Houston, Texas 77002, unless otherwise announced. HCC has a strong committee structure and those meetings are held the same day before the regular meetings. Other meetings such as workshops and special meetings are held on an as-needed basis. Public notices of all meetings are posted at the Administrative Building and on the HCC website.

In general, the Board provides policy direction and sets goals for the College, consistent with the College's role and mission. As part of their duties, the Board maintains a full schedule of community services, public appearances, speaking engagements, and legislative affairs on behalf of HCC.

### ***Economic Condition and Outlook***

Houston is the fourth largest city in America and the largest city in Texas. The community is about one hour from the Texas Gulf Coast. The area is economically, educationally, and ethnically diverse. While the average household income is \$97,929, more than 22% of the households in the Service Delivery Area (SDA) have an income less than \$25,000. While 42% of the population has a college degree, 19% of the population has no high school degree or GED. The population's ethnicity is 41% Hispanic, 26% white, 22% African American and 11% other. There is a relatively large young population, with 25% under the age of 18 years old.

As diverse as the city, HCC is a diverse and complex multi-campus institution accredited by SACSCOC to award associate degrees. HCC's SDA includes the independent school districts of Houston, Katy, Spring Branch and Alief; Stafford Municipal District; and the portions of Fort Bend ISD located in the cities of Houston, Pearland, and Missouri City. With an SDA population of about 2.4 million, HCC has the potential of providing a large workforce pool for its SDA, the state and the nation in response to current economic growth.

The Federal Reserve System regularly publishes a Summary of Commentary on Current Economic Conditions by Federal Reserve District, called the "Beige Book". The most recent Beige Book, published on October 16, 2019, predicts continued moderate expansion in the Eleventh District (Federal Reserve Bank of Dallas) economy. It also notes that while employment growth was solid, a majority of firms trying to hire reported that they were having difficulty finding qualified workers. Labor shortages continued to span most industries, skill levels, and regions. This situation presents both an opportunity and a challenge for HCC. Demand for labor is high which results in lower enrollment.

### ***Economic Value of Houston Community College***

HCC creates a significant positive impact on the business community and generates a return on investment for its major stakeholder groups – students, taxpayers, and society. In a study conducted by Economic Modeling Specialists Inc. using a two-pronged approach that involves an economic impact analysis and an investment analysis, HCC added \$4.8 billion in income to the HCC regional area economy, a value approximately equal to 1.2% of the region's total gross regional product. Expressed in terms of jobs, HCC supported 51,971 regional jobs which represents one out of every 67 jobs in the region.

## **Financial Information**

HCC has three main sources of revenue:

- Tuition and Fees – Increases in tuition and fee rates were approved by the Board of Trustees and implemented in the 2019 Spring term and included the following:
  - \$16 per credit hour -Tuition Out-of-District
  - \$36 per credit hour - Tuition Out-of-State
  - \$4 per credit hour - Technology Fee
  - \$10 per course - Distance Education or Online Fee

The increased revenues related to these rate increases were partially offset by decreases in tuition and fees revenues due to a 2.8% decrease in enrollment and a 19.1% increase in exemptions and waivers for a total increase in net tuition and fees of \$1.1 million.

- State Appropriations - During fiscal year 2019, HCC received a total of \$86.7 million in state appropriations. This is an increase of \$3.3 million compared to last year. While Educational and General State Support, primarily based on contact hour funding, remained the same (second year of the biennium), state retirement matching increased as more employees were deemed eligible for state funding.
- Ad Valorem Taxes - In 2019, Ad Valorem Taxes increased \$2.4 million. Maintenance Ad Valorem taxes amounted to \$152.5 million while Debt Service Ad Valorem Taxes were \$46.9 million for a total of \$199.4 million. While the total Ad Valorem tax rate in fiscal year 2019 is the same as fiscal year 2018 at \$0.100263, the increase in tax revenues for the year was due to an increase in property taxable values.

Overall, total operating revenues amounted to \$108.6 million; a decrease of \$0.8 million, compared to last year's \$109.4 million. While Net Tuition and Fees and Auxiliary Enterprises revenue increased by \$1.1 million and \$0.8 million, respectively, these increases were offset by a \$2.7 million decrease in Other Operating Revenues. This decrease was due mainly to reductions in federal and state grants including the Adult Education and Texas Educational Opportunity Grants, respectively.

Operating expenses increased by \$26.2 million in fiscal year 2019 primarily due to increases in building depreciation, and salaries and benefits. The increase in depreciation resulted from new buildings placed into service in the mid and latter part of 2018, generating a full year of depreciation in 2019. The increase in salaries and benefits was primarily a result of increases related to GASB 68 (Pension) and GASB 75 (OPEB). There was a 2% general salary increase for all employees effective at the start of fiscal year 2019; however, this was offset by an overall decrease in other operating expenses.

### Impact of GASB 68 (Pension) and GASB 75 (OPEB)

Total liabilities increased \$76.4 million primarily due to changes in GASB 68 (Pension) and GASB 75 (OPEB) plan assumptions and allocation methodology.

The net pension liability increased due to changes in demographic assumptions (postretirement mortality, termination rates and rates of retirement), economic assumptions (rates of salary increase for individual participants, the lowering of the discount rate from 8% to 6.907% and the lowering of the projected long-term rate of return from 8% to 7.25%.

The increase in the OPEB liability was the result of a change in the allocation methodology made by the Employees Retirement System of Texas. Previously, allocation percentages were based on employer contributions for retirees only. Now, allocation percentages are based on employer contributions for active employees and retirees.

As a result of the aforementioned changes, expenses and deferred inflows and deferred outflows increased significantly in fiscal year 2019 compared to the prior year.

**Financial Health and Sustainability**

The current overall health of HCC is strong.

- The Composite Financial Index and the Equity and Leverage Ratios are above the THECB Acceptable Standard and in line with the larger peer Texas community colleges.
- HCC’s in-district tuition and fees and tax rate are the lowest among its peers.
- The Days Cash on Hand is well above the minimum of 180 days (+/- 5%) of operating expenditures. Last year the Board of Trustees adopted a new policy setting forth a sustainable plan to address exigent or emergencies by increasing the minimum reserve requirement.
- The Board’s investment strategies are prudent and in compliance with the Public Funds Investment Act.
- HCC’s bond credit ratings remain strong and stable:

Current Bond Credit Ratings			
Rating Agency	Moody's	Standard & Poor's	Fitch Ratings
<b>Outlook</b>	<b>Stable</b>	<b>Stable</b>	<b>Stable</b>
General Obligation/ MTNs	Aa1	AA+	AA+
Senior Lien Revenue Bonds	Aa2	AA-	-
Junior Lien Revenue Bonds	Aa1	A+	-

**Strategic Accomplishments**

As we conclude the Imagine HCC 2019 Strategic Plan, we reflect on the great progress made over the last five years. We have fundamentally re-engineered the institution and we have made a profound impact on student success. Through the outstanding work of faculty and staff we have infused the HCC Way across our institution, and the ultimate student experience is taking shape – we see it in the numbers. Although we have not met some of our year-to-year goals, when viewed over time our achievements in student success and fiscal matters speaks volumes of our discipline. We are having a lasting impact on our students and on the regional economy.

**Imagine HCC: A Five-Year Summary**

In 2014, under the visionary leadership of the Board, we made a commitment to our students, faculty, staff and community that we would fundamentally rethink our organization and challenge the status quo. In order to meet that commitment, we developed a five year strategic plan, “Imagine HCC 2019: Creating a Vibrant Future” (Imagine 2019). Through internal initiatives and external partnerships, we have moved forward as an institution to meet the growing workforce demands for highly skilled workers in the greater Houston area. We set an expectation for the transformation that how we conduct business and deliver education was paramount. We made it clear the finances, the bond allocations, the student experience, the long-range strategy, and the culture of HCC must be addressed for not only today, but also for the future. We made a statement that we, as an institution, must change and re-engineer HCC together. This journey has created real opportunities for us to build the HCC of the future — one that will be just as relevant in 20 years as it is today.

We started this journey in 2014; we set goals for ourselves and for this transformation process. To us, a complete and successful organization-wide transformation process meant:

- Leveraging our size and resources
- Advancing toward a clear vision
- Eliminating inefficiencies
- Aligning priorities across the system
- Creating new opportunities

We plotted out desired outcomes and end states, which included:

- Increasing our student success rate
- Increasing our capacity to serve the community with technical and academic programs
- Increasing our facility utilization rates
- Increasing productivity of talent capital
- Increasing accountability at all levels of the organization
- Increasing external funding opportunities through industry, grants, and other non-traditional sources
- Increasing consistency and quality of the student experience

All of the above was done while decreasing the cost of the delivery of instruction and support services.

Together, we have made meaningful progress in many significant ways. At each step of this transformation, we have worked with our Board, staff, faculty, students, community and industry partners to identify our challenges and innovate so we can thrive in the ever-changing academic and business environment. We have challenged ourselves to think like a leading academic institution that is driven by a powerful business engine. We have leveraged our vision to raise our profile and change our way of working. All of this work has created the HCC of tomorrow that is more efficient, responsive, interconnected, innovative, aligned and successful.

#### Highlights: 2014 – 2019

Over the last five years, we created new programs, structures and teams to facilitate the re-engineering of this institution. We spent 2014 heavily involved in designing the transformation of the institution. 2015 was a year of transition, while 2016 and 2017 were spent executing the vision. 2018 was spent understanding the feedback from our three years of experience and preparing for future sustainability.

We created the ultimate student experience, including:

- Enhanced focus on customer service
- Improved advising with increased staffing, training, and process alignment
- Achieved 89% job placement/transfer after graduation
- Improved our educational pathways to ensure clarity for students and improve transition to work or university
- Provided new offerings, including online, weekend, and honors college
- Funded \$7.8M in student scholarships
- Developed apprenticeship programs in high-demand industries/professions
- Achieved a 45% increase in dual credit enrollment

HCC modernized the organization and operations:

- Created industry responsive Centers of Excellence
- Implemented a “Shared Services” model in support of our seven colleges
- Modernized the budgeting and budget development process
- Improved fiscal transparency
- Ensured the 2013 Capital Improvement Program (CIP) was completed on time and under budget
- Optimized resources and enhanced sustainability
- Reorganized the executive leadership team to meet the needs of the institution

We strengthened our partnerships:

- Independent school districts, Charter, and Private schools (P-Soar and Eagle Promise)
- Local universities, articulation agreements, and Houston Guided Pathways to Success
- Business and Industry (the Greater Houston Partnership, chambers of commerce)

We aligned the organization’s culture:

- Enhancing our shared commitment to diversity and inclusion
- Developing a culture of care
- Aligning the allocation of faculty and staff across the System to the needs of students
- Implementing the HCC Way and defining our shared cultural foundations
- Developing a collaborative shared governance

These are just a few of the highlights of our accomplishments through the efforts of the Board, leadership, and all faculty and staff.

### ***Embracing Houston’s Future***

One way we have prepared our institution for the future is through strategic planning. To inform this critical component of the College’s success, we gathered input from a broad range of community organizations, holding over 40 outreach sessions, surveying students, faculty, staff, and conducting research on Houston’s current and future workforce needs. The more feedback we received, the more we realized traditional planning models would not serve the 21<sup>st</sup> century needs of our diverse, unique, and dynamic city. We expect that our next Strategic Plan, “Embracing Houston’s Future”, will be approved by the Board in late Fall 2019. We have built it through extensive outreach and engagement across all the communities HCC serves. Responding to what we heard requires a unique plan that includes:

- Personas to give us a more robust understanding of our students,
- Strategic Competencies to focus on the behaviors essential for a dynamic organization,
- Integrated planning cycles to build strategy into HCC’s DNA, and
- Bias for Action to focus the Plan on actually making things happen throughout HCC.

Instead of viewing strategic planning as anchored at a single, fixed point in time, HCC’s next strategic plan will remain a living document that will be revisited and refreshed annually to meet our institution’s ever-changing needs, while maintaining a line-of-sight to long-range goals. This strategic plan is designed to be a dynamic document that is refreshed annually through integrated planning processes. It is intended to transform HCC into an institution where strategic planning is not a single, discreet time-constrained event, but an integrated element of how the institution operates every day. The primary goal is to create an organization with the

capacity needed to serve Houston, the “City of America’s Future.”

As with Imagine 2019, the new strategic plan also aligns with the THECB 60x30 TX Plan. This alignment allows HCC to be responsive to the state’s plan to ensure that 60% of all Texans ages 25-34 will achieve a postsecondary certificate or degree by the year 2030.

#### **Houston Promise & Houston Connect**

Houston Promise and Houston Connect, both in the final stages of creation after a year of design and development by a multidisciplinary team, will create pathways that impact students in our ISD partners’ under-performing schools by connecting with both employers and four year educational institutions. Examples include a six-week summer bridge program which provides invaluable job training, apprenticeships, college readiness and Texas Success Initiative Academies. This unprecedented initiative, which represents the convening of multiple institutions (higher education, K-12, community partners, the business community/employers), will provide students with pathways to a better life while fueling the local economy with a highly trained workforce.

#### ***Budget Control***

The Board of Trustees adopts an operating budget annually, providing authority to expend funds in accordance with state law, Board policy and HCC approved budgeting procedures. Included in the annual budget are the activities of the Unrestricted, Restricted, Auxiliary, Capital and Technology and Retirement of Debt Service funds.

HCC utilizes the practice of zero based budgeting. It is an opportunity to build budgets from the bottom up and focus on what is needed today and in the future. This practice will continue to be improved upon and be the basis for future proposed budgets.

The Office of Fiscal Planning and Budget monitors the overall budget activities. Internal controls have been implemented to ensure that expenses fall within the budget and in accordance with purchasing regulations and guidelines. Monthly financial and budget reports, which include the status of all HCC funds and accounts, are submitted to the Board.

#### ***Independent Audit***

Texas state statutes require that HCC be subject to an annual audit by independent certified public accountants. The purpose of an independent audit is to provide assurance, based on independent review and testing, that the basic financial statements and accompanying notes are fairly stated in all material aspects. HCC’s Board selected the accounting firm of Whitley Penn LLP to perform the annual audit beginning with fiscal year 2019 and for each succeeding year through fiscal year 2023. In addition to meeting the state statutes requirements, their audit was also designed to meet the requirements of the Federal Single Audit Amendments of 1996 and related Uniform Guidance and Uniform Grant Management Standards. The Single Audit financial reports consist of the Schedule of Expenditures of State of Texas Awards, Schedule of Expenditures of Federal Awards and the auditor’s report on compliance and internal controls.

#### ***Awards***

HCC has been awarded the Government Finance Officers Association of the United States and Canada (GFOA) Certificate of Achievement for Excellence in Financial Reporting for its CAFR for the fiscal year ended August 31, 2018. This is the 12<sup>th</sup> year that HCC has received this prestigious award. In order to be awarded a Certificate of Achievement by GFOA, a government must publish an easily readable and efficiently organized CAFR. This report must satisfy both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current CAFR meets the Certificate of Achievement program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

HCC's Procurement Operations Department received the prestigious Achievement of Excellence in Procurement award from The National Procurement Institute, Inc in 2019. This is the fourth consecutive year that HCC has earned this award. HCC is one of only 24 higher education institutions in the United States that earned the award in 2019.

***HCC's 50<sup>th</sup> Anniversary***

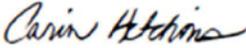
In 2021, HCC will officially celebrate the institution's 50 years of educating and training Houstonians. We plan to launch a celebration of our 50<sup>th</sup> anniversary in 2020 and continue a series of golden anniversary celebrations through 2022. A series of presentations celebrating the past, present and future of all the ways HCC has impacted students and families throughout the Houston community is also planned. All the celebrations and special events will provide opportunity for our former students to gather and reminisce with faculty, friends, and current students about their years in the college, as well as share their vision for the future.

***Acknowledgement***

The staff thanks the Board for its oversight and unfailing support in advancing the highest standards of integrity, transparency and accountability in HCC's financial operations. We also wish to acknowledge the Chancellor for providing the leadership and the resources necessary to achieve HCC's strong financial position and prepare this CAFR. Credit also goes to the Finance and Administration Division and all members of the staff for their hard work and dedication in preparing the CAFR. Finally, we would like to thank the accounting firm of Whitley Penn LLP for their experience and dedication in completion of the audit and review of this report.

Respectfully submitted,

  
\_\_\_\_\_  
Janet E. Wormack, Ed.D.  
Senior Vice Chancellor, Finance & Administration and CFO

  
\_\_\_\_\_  
Carin Hutchins, MBA and CPA  
Associate Vice Chancellor, Finance & Accounting



Government Finance Officers Association

Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting

Presented to

**Houston Community College System**  
**Texas**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**August 31, 2018**

*Christopher P. Morill*

Executive Director/CEO

**FINANCIAL SECTION**



Houston Office  
3737 Buffalo Speedway  
Suite 1600  
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## REPORT OF INDEPENDENT AUDITORS

To the Board of Trustees  
Houston Community College System  
Houston, Texas

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Houston Community College System (the "System"), as of and for the year ended August 31, 2019, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the discretely presented component unit's financial statements of the Houston Community College Foundation (the "Foundation") as of and for the years ended August 31, 2019 and 2018. Those financial statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the



To the Board of Trustees  
Houston Community College System

appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Opinions**

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the System as of August 31, 2019, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Report on Comparative Information**

The comparative information presented herein as of and for the year ended August 31, 2018, was derived from financial statements audited by a predecessor auditor and, accordingly, we express no opinion or provide no assurance on it. In their report, dated December 5, 2018, the predecessor auditor expressed an unmodified opinion on those audited financial statements.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 19 through 34 and pension information and other-post employment benefit information on pages 79 through 85 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the System's basic financial statements. The Supplemental Schedules A through D as required by the Texas Higher Education Coordinating Board's (THECB) *Budget Requirements and Annual Financial Reporting Requirements for Texas Public Community and Junior Colleges*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), the Schedule of Expenditures of State Awards as required by the State of Texas

To the Board of Trustees  
Houston Community College System

*Uniform Grant Management Standards*, and other information such as the introductory and statistical sections are also presented for additional analysis and are not a required part of the basic financial statements.

The Supplemental Schedules A through D, the Schedule of Expenditures of Federal Awards, and the Schedule of Expenditures of State Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplemental Schedules A through D, the Schedule of Expenditures of Federal Awards, and the Schedule of Expenditures of State Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2019 on our consideration of the System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

Whitley Penn LLP

Houston, Texas  
December 4, 2019

HOUSTON COMMUNITY COLLEGE SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Unaudited)

## INTRODUCTION

Management's Discussion and Analysis (MD&A) of the annual financial statements of the Houston Community College System (HCC or the System) is designed to help readers understand some of the conditions and events contributing to the current financial position of HCC as well as to point out trends and changes in the results of operations. Please read it in conjunction with the Chancellor's Letter, the Transmittal Letter, HCC's basic financial statements, and Notes to the Financial Statements. Responsibility for the completeness and fairness of this information rests with HCC. For purposes of the summary and discussion, the terms "2019", "2018" and "2017" refer to fiscal years ended August 31, 2019, August 31, 2018, and August 31, 2017, respectively.

## OVERVIEW OF FINANCIAL STATEMENTS

HCC is considered a special-purpose government engaged in business-type activities according to the definition in Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34* (GASB 61). The requirements of this Statement result in financial statements being more relevant by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity. The resulting financial statement format focuses on HCC as a whole. The basic financial statements are designed to emulate the corporate presentation model whereby HCC's fiscal activities are consolidated into one column total. Comparative data from the prior year is shown in a separate column on the face of each of the statements. The financial results and position are presented as of August 31, 2019 and 2018 and consists of three primary statements: Statements of Net Position; Statements of Revenues, Expenses, and Changes in Net Position; and Statements of Cash Flows.

The Houston Community College Foundation (the Foundation) is a non-profit organization established in 1976 with its sole purpose being to provide benefits such as scholarships and grants to HCC. The Foundation has been discretely presented in HCC's financial statements as a component unit by including its Statements of Financial Position and Activities in HCC's CAFR in accordance with GASB 61. Since the financial statements of the Foundation are presented in a different format than those of HCC, the Foundation's financial statements are presented on separate pages from HCC's financial statements.

### **Financial Highlights for Fiscal Year 2019**

- Total assets decreased by \$5.4 million from fiscal year 2018. In fiscal year 2019 \$19.4 million was spent to complete the 2013 capital improvement plan (CIP) program projects thus reducing restricted cash and investments. All but one of the 2013 CIP program projects have been substantially completed and are being depreciated, resulting in only a \$4.4 million increase in net capital assets.
- Total liabilities increased by \$76.4 million primarily due to changes in GASB Statement No. 68 (Pension) plan assumptions and the contribution allocation methodology for GASB Statement No. 75 (OPEB). The net Pension liability increased due to changes in demographic assumptions (postretirement mortality, termination rates and rates of retirement), economic assumptions (rates of salary increase for individual participants, discount rates and long-term rate of return) and the lowering of the projected long-term rate of return from 8% to 7.25%. The increase in the net OPEB liability was the result of a change in the allocation method made by the Employees Retirement System of Texas (ERS). Previously, allocation percentages were based on employer contributions for retirees only. Currently, allocation percentages are based on employer contributions for active employees and retirees. As a result of the aforementioned changes, expenses and deferred inflows/outflows increased significantly compared to the prior year.

HOUSTON COMMUNITY COLLEGE SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Unaudited)

- The System's net position at August 31, 2019 was \$393 million, reflecting a \$3 million increase from the prior year. While the GASB 68 (Pension) and GASB 75 (OPEB) expenses reduced net position, this decrease was offset by the capitalization of completed CIP projects. Net position would have been \$596.1 million at August 31, 2019 without the cumulative impact of GASB 68 (Pension) and GASB 75 (OPEB).
- The \$8 million increase in non-operating revenues is related to increases in restricted state appropriations (\$3.4 million), property taxes (\$2.4 million) and gifts and other non-operating revenues (\$3.0 million). These increases were offset by decrease in Title IV grants (\$0.7 million). Restricted state appropriations are higher than last year as more employees were deemed eligible for state funding. Property taxes are higher than last year due to an increase in property values. The increase in gifts and other non-operating revenues is primarily due to an overall increase in returns on investments related to higher interest rate earnings throughout the year of approximately .24%.
- Operating expenses by functional and natural classifications increased in fiscal year 2019 by \$26.2 million or 6.2% compared to fiscal year 2018. The increases in most of the functional areas such as instruction, academic support, student services and institutional support can be attributed to salaries and benefits which are up due to the \$22.6 million increase in expenses recorded in fiscal year 2019 relative to fiscal year 2018 related to GASB 68 (Pension) and GASB 75 (OPEB) and the 2% salary increase. Expenses related to operations and maintenance of plant increased over fiscal year 2018 primarily due to the new buildings that have been placed in service. Depreciation also increased due to the completion of most of the 2013 CIP program projects which are now operational and being depreciated. Last year scholarship expenses were \$3.3 million higher than this fiscal year due to a significant number of scholarships granted during fiscal year 2018 to students affected by Hurricane Harvey.

**Statements of Net Position**

The Statements of Net Position represent the HCC's financial position at the end of each fiscal year presented and includes all assets, liabilities and deferred inflows and outflows of resources of the System. Net Position is the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources and serves as a general indicator of financial stability.

From the data presented, readers of the financial statements are able to determine the assets available to continue operations of the System and how much HCC owes vendors, investors and lending institutions.

Current liabilities are generally those liabilities which are due within one year, and current assets are those assets which are available to satisfy current liabilities. Non-current assets include restricted cash and cash equivalents, capital assets, investments and other assets not classified as current. Non-current liabilities include bonds payable and other long-term commitments.

Current year accounting related to GASB 75 (OPEB) and GASB 68 (Pension) has had a significant impact on the current years' Statement of Net Position, including changes in liabilities, deferred inflows and outflows of resources and net position as described more fully in appropriate sections of this MD&A and Note 21 in the accompanying Notes to the Financial Statements. HCC's net position for fiscal year 2019 is \$393 million; however, it would have been \$596.1 million without the cumulative impact of GASB 68 (Pension) and GASB 75 (OPEB).

**HOUSTON COMMUNITY COLLEGE SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Unaudited)**

In order to show the trends for the two years presented in the Statements of Net Position, a summary of three years of data for the fiscal years ended August 31, 2017 through 2019 is presented below.

**Statements of Net Position**

	2019	2018	2017	Change	
				2018 to 2019	2017 to 2018
<b>ASSETS:</b>					
Current Assets	\$ 247,869,964	\$ 186,491,490	\$ 240,527,026	\$ 61,378,474	\$ (54,035,536)
Non-current Assets	43,039,000	114,238,243	90,363,897	(71,199,243)	23,874,346
Capital Assets, Net	1,204,308,573	1,199,871,386	1,197,440,430	4,437,187	2,430,956
Total Assets	1,495,217,537	1,500,601,119	1,528,331,353	(5,383,582)	(27,730,234)
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Advance Funding Valuation	7,310,083	8,281,520	9,252,957	(971,437)	(971,437)
OPEB	106,771,070	2,582,938	-	104,188,132	2,582,938
Pension	45,154,241	14,134,885	18,600,856	31,019,356	(4,465,971)
Total Deferred Outflows of Resources	159,235,394	24,999,343	27,853,813	134,236,051	(2,854,470)
<b>TOTAL ASSETS &amp; DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 1,654,452,931</b>	<b>\$ 1,525,600,462</b>	<b>\$ 1,556,185,166</b>	<b>\$ 128,852,469</b>	<b>\$ (30,584,704)</b>
<b>LIABILITIES:</b>					
Current Liabilities	117,826,375	113,649,283	117,876,606	4,177,092	(4,227,323)
Non-current Liabilities	1,056,767,599	984,563,871	958,362,574	72,203,728	26,201,297
Total Liabilities	1,174,593,974	1,098,213,154	1,076,239,180	76,380,820	21,973,974
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Advance Funding Valuation	3,298,763	2,435,374	2,618,052	863,389	(182,678)
OPEB	63,300,384	18,739,982	-	44,560,402	18,739,982
Pension	20,235,389	16,089,600	10,865,899	4,145,789	5,223,701
Total Deferred Inflows of Resources	86,834,536	37,264,956	13,483,951	49,569,580	23,781,005
<b>TOTAL LIABILITIES &amp; DEFERRED INFLOWS OF RESOURCES</b>	<b>\$ 1,261,428,510</b>	<b>\$ 1,135,478,110</b>	<b>\$ 1,089,723,131</b>	<b>\$ 125,950,400</b>	<b>\$ 45,754,979</b>
<b>NET POSITION:</b>					
Net Investment in Capital Assets	383,077,877	363,332,433	374,110,855	19,745,444	(10,778,422)
Restricted-Expendable	13,040,855	12,120,519	18,554,933	920,336	(6,434,414)
Unrestricted	(3,094,311)	14,669,400	73,796,247	(17,763,711)	(59,126,847)
<b>TOTAL NET POSITION</b>	<b>\$ 393,024,421</b>	<b>\$ 390,122,352</b>	<b>\$ 466,462,035</b>	<b>\$ 2,902,069</b>	<b>\$ (76,339,683)</b>

HOUSTON COMMUNITY COLLEGE SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Unaudited)

**Assets**

**Fiscal Year 2019:**

In comparing fiscal year 2019 to 2018, overall assets decreased by \$5.4 million. Current assets increased by \$61.4 million primarily due to a shift of unrestricted cash to short-term investments to take advantage of higher yields. Non-current assets decreased by \$71.2 million due to the shift to short-term investments and the completion of CIP projects. As a result of projects being completed, capital assets increased by \$37.8 million. The increase is offset by current year depreciation of \$33.4 million resulting in a net increase in capital assets of \$4.4 million.

**Fiscal Year 2018:**

In comparing fiscal year 2018 to 2017, overall assets decreased by \$27.7 million. Current assets decreased by \$54 million primarily due to reductions in short-term investments to complete CIP and to shift unrestricted cash to long-term investments to take advantage of higher yields. As a result, non-current assets increased by \$23.9 million. While HCC incurred additional CIP expenditures during the year, many projects were placed in service and are being depreciated. As a result, net capital assets increased by only \$2.4 million.

**Deferred Outflows of Resources**

**Fiscal Year 2019:**

Deferred outflows of resources increased by \$134.2 million from fiscal year 2018 to fiscal year 2019 mainly due to an increase of \$104.2 million related to the change in the proportionate share from the new ERS allocation methodology for GASB 75 (OPEB). Previously, allocation percentages were based on employer contributions for retirees only. Currently, allocation percentages are based on employer contributions for active employees and retirees. There was also an increase of \$31 million related to GASB 68 (Pension). This increase resulted from the changes in demographic assumptions, economic assumptions, and decreased discount rate and long-term rate of return.

**Fiscal Year 2018:**

Deferred outflows of resources decreased by \$2.9 million from fiscal year 2017 to fiscal year 2018 mainly due to a decrease of \$4.5 million related to pension expense resulting from the difference between projected and actual earnings on TRS pension plan investments. This was offset by an increase of \$2.6 million in future net OPEB liability expense related to the implementation of GASB 75 (OPEB).

**Liabilities**

**Fiscal Year 2019:**

Overall liabilities increased by \$76.4 million from fiscal year 2018 to fiscal year 2019. Current liabilities increased by \$4.2 million mainly due to a \$3 million increase in unearned revenue due to tuition and fee rate increases in the Fall of 2019. In addition, the current portion of debt and the OPEB liability increased by \$1.9 and \$2.0 million, respectively. These increases were offset by a decrease of \$2.6 million in accounts payable and accrued liabilities. Non-current liabilities increased by \$72.2 million due primarily to a \$76.8 million increase in OPEB liability related to GASB 75 (OPEB) and an increase of \$33.6 million in pension liability related to GASB 68 (Pension). The increase in OPEB liability was the result of a change in the allocation methodology made by ERS. Previously, allocation percentages were based on employer contributions for retirees only. Currently, allocation percentages are based on employer contributions for active employees and retirees. The pension liability increase is related to changes in demographic and economic assumptions and the lowering of the projected long-term rate of return from 8% to 7.25%. These increases were offset by a \$36.2 million net decrease in total outstanding debt in fiscal year 2019 attributable to principal payments of \$37.5 million, premium amortization of \$7.3 million, principal reductions of \$4.2 million due to refunding of bonds and new borrowings of \$12.8 million related to the West Houston Expansion project.

HOUSTON COMMUNITY COLLEGE SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Unaudited)

**Fiscal Year 2018:**

Overall liabilities increased by \$22 million from fiscal year 2017 to fiscal year 2018. Current liabilities decreased by \$4.2 million as HCC is nearing completion of the 2013 CIP program. Non-current liabilities increased by \$26.2 million due primarily to the \$84 million OPEB liability recorded in fiscal year 2018 related to GASB 75 (OPEB). This amount was offset by a \$45.1 million decrease in outstanding debt in fiscal year 2018 attributable to principal payments of \$39.6 million, premium amortization of \$7.45 million and new borrowings of \$2.0 million. The pension liability related to HCC's participation in the TRS defined benefit pension plan decreased by \$10 million based on actuarial calculations at the plan level.

**Deferred Inflows of Resources**

**Fiscal Year 2019:**

Deferred inflows of resources increased by \$49.6 million from fiscal year 2018 to fiscal year 2019. The increase is primarily related to GASB 75 (OPEB) and GASB 68 (Pension). The increase for GASB 75 (OPEB) was \$44.6 million and was due to the change in demographic assumptions, assumed expenses, and an increase in the discount rate assumption. An increase of \$4.1 million related to GASB 68 (Pension) resulted from the changes in demographic assumptions.

**Fiscal Year 2018:**

Deferred inflows of resources increased by \$23.8 million from fiscal year 2017 to fiscal year 2018. \$18.7 million of the increase was due to the implementation of GASB 75 (OPEB). Also, there was an increase of \$5.2 million related to the future net pension liability expense resulting from the difference between projected and actual earnings on TRS pension plan investments.

**Net Position**

**Fiscal Year 2019:**

Overall, net position for fiscal year 2019 is \$393 million, which is a \$3 million increase over fiscal year 2018. Current Unrestricted decreased in fiscal year 2019 from fiscal year 2018 by \$17.8 million primarily related to GASB 75 (OPEB) and GASB 68 (Pension). The GASB 75 (OPEB) and GASB 68 (Pension) expenses were higher in fiscal year 2019 than fiscal year 2018 by \$17.2 and \$5.4 million, respectively. Net investment in Capital Assets increased \$19.7 million mainly due to the capitalization of completed CIP projects. Restricted-Expendable increased by \$0.9 million.

**Fiscal Year 2018:**

Overall, net position for 2018 is \$390.1 million, which is a \$76.3 million decrease from 2017. Current Unrestricted decreased in fiscal year 2018 from fiscal year 2017 by \$59.1 million related to implementation of GASB 75 (OPEB). Net investment in Capital Assets decreased \$10.8 million mainly due to the sale of land. Restricted-Expendable decreased by \$6.4 million primarily due to the implementation of GASB Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period (GASB 89), which requires interest on bond funded construction projects to be recorded as expense versus capitalized as part of the capital project. The effect of implementing GASB 89 can be seen in Schedule C. Interest on capital-related debt increased from \$18 million in fiscal year 2017 to \$30.4 million in fiscal year 2018.

Net Position details are available in Schedule D.

HOUSTON COMMUNITY COLLEGE SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Unaudited)

**Statements of Revenues, Expenses and Changes in Net Position**

The Statements of Revenues, Expenses, and Changes in Net Position present the operating results, as well as non-operating revenues and expenses. Of the three main sources of revenue — ad valorem taxes, state appropriations, and tuition and fees — only tuition and fees represents an exchange for services. Taxes and state appropriations represent non-exchange transactions and thus are considered non-operating revenues. This approach to presenting revenues and expenses is intended to summarize and simplify the user's analysis of the various services offered to students and the public. Depending on whether revenues or expenses are greater for the year, a net increase or net decrease in net position is created. The ending balances of net position on these statements agree with those shown on the Statements of Net Position in Exhibit 1.

A summarized comparison of the System's revenues, expenses and changes in net position for the years ended August 31, 2019, 2018, and 2017 is presented below.

**Statements of Revenues, Expenses, and Changes in Net Position**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>Change</u>	
				<u>2018 to 2019</u>	<u>2017 to 2018</u>
Operating Revenues	\$ 108,601,114	\$ 109,415,489	\$ 114,132,214	\$ (814,375)	\$ (4,716,725)
Operating Expenses	452,076,684	425,853,990	404,212,671	26,222,694	21,641,319
Operating Loss	(343,475,570)	(316,438,501)	(290,080,457)	(27,037,069)	(26,358,044)
Non-operating Revenues, Net	346,377,639	339,033,740	342,081,553	7,343,899	(3,047,813)
Increase/(Decrease) in Net Position	\$ 2,902,069	\$ 22,595,239	\$ 52,001,096	\$ (19,693,170)	\$ (29,405,857)
Beginning Net Position	390,122,352	466,462,035	414,460,939	(76,339,683)	52,001,096
Cumulative Effect of Change in Accounting Principle	-	(98,934,922)	-	98,934,922	(98,934,922)
Ending Net Position	<u>\$ 393,024,421</u>	<u>\$ 390,122,352</u>	<u>\$ 466,462,035</u>	<u>\$ 2,902,069</u>	<u>\$ (76,339,683)</u>

**Revenues**

As described above and in accordance with GAAP, promulgated by GASB, state appropriations and ad valorem tax revenues are reported as non-operating revenues. This results in reporting a large operating loss which is significantly decreased after including these non-operating revenues that are intended to contribute to operations. State appropriations are restricted by law to be used only for the educational and general expenses, HCC's primary operations. Ad valorem tax revenues are broken into two types: those for maintenance and operations and those for debt service. The maintenance and operations portion is specifically designed to be utilized for operations.

The debt service portion is restricted to pay the principal, interest, and other costs associated with tax backed bonds (General Obligation or GO bonds and maintenance tax notes). Interest revenue is obtained through pooled investments, a large portion of which is attributable to operations. Also federal financial aid is classified as non-operating revenue by GASB.

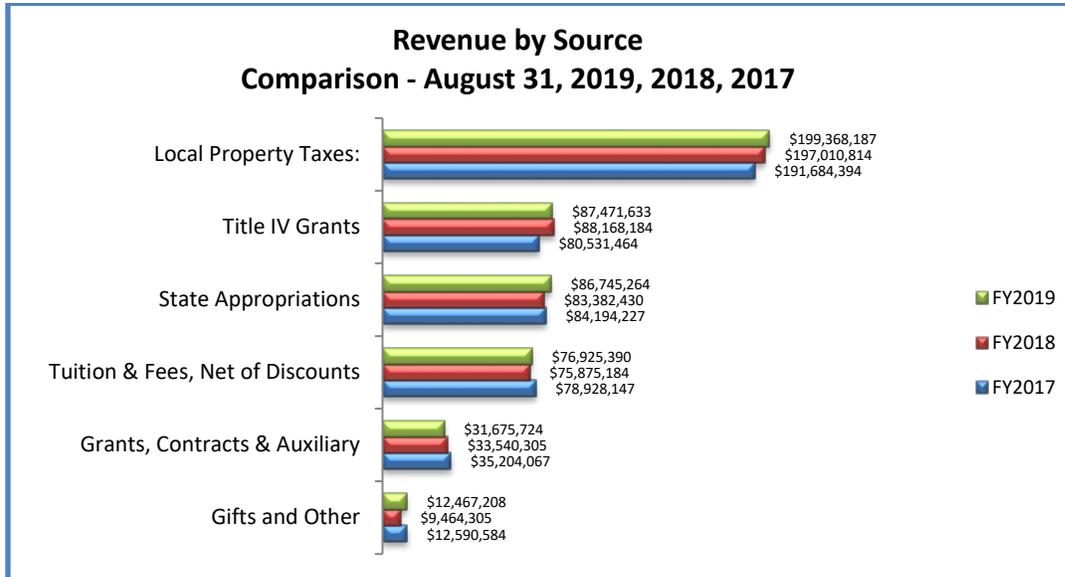
HOUSTON COMMUNITY COLLEGE SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Unaudited)

All revenues, both operating and non-operating, are presented below.

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>Change</u>	
				<u>2018 to 2019</u>	<u>2017 to 2018</u>
<u>OPERATING REVENUES:</u>					
Tuition & Fees, Net of Discounts	\$ 76,925,390	\$ 75,875,184	\$ 78,928,147	\$ 1,050,206	\$ (3,052,963)
Grants, Contracts & Auxiliary:					
Federal	13,664,066	14,618,765	14,092,252	(954,699)	526,513
State	5,257,785	7,241,239	6,848,608	(1,983,454)	392,631
Local, Private & Non-governmental	1,984,212	1,729,060	2,162,697	255,152	(433,637)
Auxiliary	10,769,661	9,951,241	12,100,510	818,420	(2,149,269)
Total Grants, Contracts & Auxiliary	31,675,724	33,540,305	35,204,067	(1,864,581)	(1,663,762)
<b>TOTAL OPERATING REVENUES</b>	<b>108,601,114</b>	<b>109,415,489</b>	<b>114,132,214</b>	<b>(814,375)</b>	<b>(4,716,725)</b>
<u>NON-OPERATING REVENUES:</u>					
State Appropriations:					
Unrestricted	68,174,584	68,165,444	70,294,751	9,140	(2,129,307)
Restricted	18,570,680	15,216,986	13,899,476	3,353,694	1,317,510
Total State Appropriations	86,745,264	83,382,430	84,194,227	3,362,834	(811,797)
Local Property Taxes:					
M & O	152,465,955	150,689,019	143,760,474	1,776,936	6,928,545
Debt	46,902,232	46,321,795	47,923,920	580,437	(1,602,125)
Total Local Property Taxes	199,368,187	197,010,814	191,684,394	2,357,373	5,326,420
Title IV Grants	87,471,633	88,168,184	80,531,464	(696,551)	7,636,720
Gifts and Other:					
Gifts	2,351,677	2,009,979	1,875,561	341,698	134,418
Other	10,115,531	7,454,326	10,715,023	2,661,205	(3,260,697)
Total Gifts and Other	12,467,208	9,464,305	12,590,584	3,002,903	(3,126,279)
<b>TOTAL NON-OPERATING REVENUES</b>	<b>386,052,292</b>	<b>378,025,733</b>	<b>369,000,669</b>	<b>8,026,559</b>	<b>9,025,064</b>
<b>TOTAL REVENUES</b>	<b>\$494,653,406</b>	<b>\$487,441,222</b>	<b>\$483,132,883</b>	<b>\$ 7,212,184</b>	<b>\$ 4,308,339</b>

HOUSTON COMMUNITY COLLEGE SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Unaudited)

**Revenue by Source**



**Fiscal Year 2019:**

Overall, operating revenues decreased by \$0.8 million or 0.7 % in fiscal year 2019 as compared to fiscal year 2018 (Exhibit 2). Although the System experienced a 2.8% decrease in enrollment, tuition and fees revenue increased 1.4% or \$ 1.1 million due to an increase in tuition and fees rates in Spring 2019. This increase was offset by a 19.1% increase in exemptions and waivers for Dual Credit and other students. There was a decrease of 6.5% or \$1 million in federal grants and contracts due to a reduction in Adult Education Federal Grant funding and a decrease of 27.4% or \$2 million in state grants and contracts mainly due to a decrease in Texas Educational Opportunity Grants (TEOG) related to the decrease in enrollment. The decrease in operating revenues is offset by an increase of \$0.8 million in Auxiliary revenue.

Non-operating revenues increased by \$8 million or 2.1% over the previous year (Schedule C). Total state appropriations were higher in fiscal year 2019 by \$3.4 million or 4% compared to fiscal year 2018 primarily in the restricted category. Unrestricted state appropriations are determined for each biennium period based on funded contact hours (90%) reported during a base year period and a three year average of student success points (10%). Fiscal year 2019 was the second year in the current biennium period, so unrestricted state appropriations were consistent with fiscal year 2018. Restricted state appropriations include the 50% reimbursement of retirement and health care premiums for eligible college employees. This amount increased by \$3.4 million over the prior year due to the 2% salary increase, slight premium increases and an increase in the number of college employees deemed eligible for reimbursement. Property tax revenues increased by \$2.4 million over the prior year. While the total tax rate remained the same as last year (\$0.100263), total tax revenue increased due to increases in property valuations. In addition, as HCC's debt service requirements decrease, more of the tax revenue can be utilized to cover costs such as salary increases. Gifts and other non-operating revenues increased \$3.0 million over fiscal year 2018 primarily due to an overall increase in returns on investments related to higher interest rate earnings throughout the year of approximately .24 %. These increases are offset by a \$0.7 million decrease in Title IV grants related to the decrease in enrollment.

HOUSTON COMMUNITY COLLEGE SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Unaudited)

**Fiscal Year 2018:**

Overall, operating revenues decreased by \$4.7 million or 4.1% in fiscal year 2018 as compared to fiscal year 2017 (Exhibit 2). The System experienced a decrease of 3.9% or \$ 3.1 million in tuition and fees revenue due to a slight decrease in enrollment and an increase in Dual Credit and other waivers, which offset tuition for students. There was an increase of 3.7% or \$0.5 million in federal grants and contracts and an increase of 5.7% or \$0.4 million in state grants and contracts. Non-governmental grants and contracts decreased by \$0.4 million or 20%. Auxiliary revenue decreased by \$2.1 million or 17.8% due to decreases in leasing and bookstore commission revenues.

Non-operating revenues increased by \$9 million or 2.5% over the previous year (Schedule C). Total state appropriations were lower in fiscal year 2018 by \$0.8 million or 1% compared to fiscal year 2017. Unrestricted state appropriations are determined for each biennium period based on funded contact hours (90%) reported during a base year period and a three year average of student success points (10%). Fiscal year 2018 was the first year in the current biennium period. Unrestricted state appropriations are \$2.1 million lower than last year because funded contact hours were 4% lower in the base year supporting the current biennium period allocation versus the base year supporting the previous biennium period allocation. Restricted state appropriations include the 50% reimbursement of retirement and health care premiums for eligible college employees. This amount increased by \$1.3 million over the prior year due to the 2% salary increase and slight premium increases. Property tax revenues increased by \$5.3 million over the prior year. While the total tax rate remained the same as last year (\$0.100263), total tax revenue increased due to increases in property valuations. In addition, as HCC's debt service requirements decrease, more of the tax revenue can be collected to cover costs such as salary increases. Title IV funds increased from \$80.5 million in fiscal year 2017 to \$88.2 million in fiscal year 2018 due to an increase in Pell awards. Gifts and other non-operating revenues decreased by \$3.1 million primarily related to investment income. While overall returns on investments increased by \$664 thousand in fiscal year 2018 due to a general increase in interest rates of approximately .90%, there was a \$30M decrease in the investment portfolio due to construction spending in fiscal year 2018.

HOUSTON COMMUNITY COLLEGE SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Unaudited)

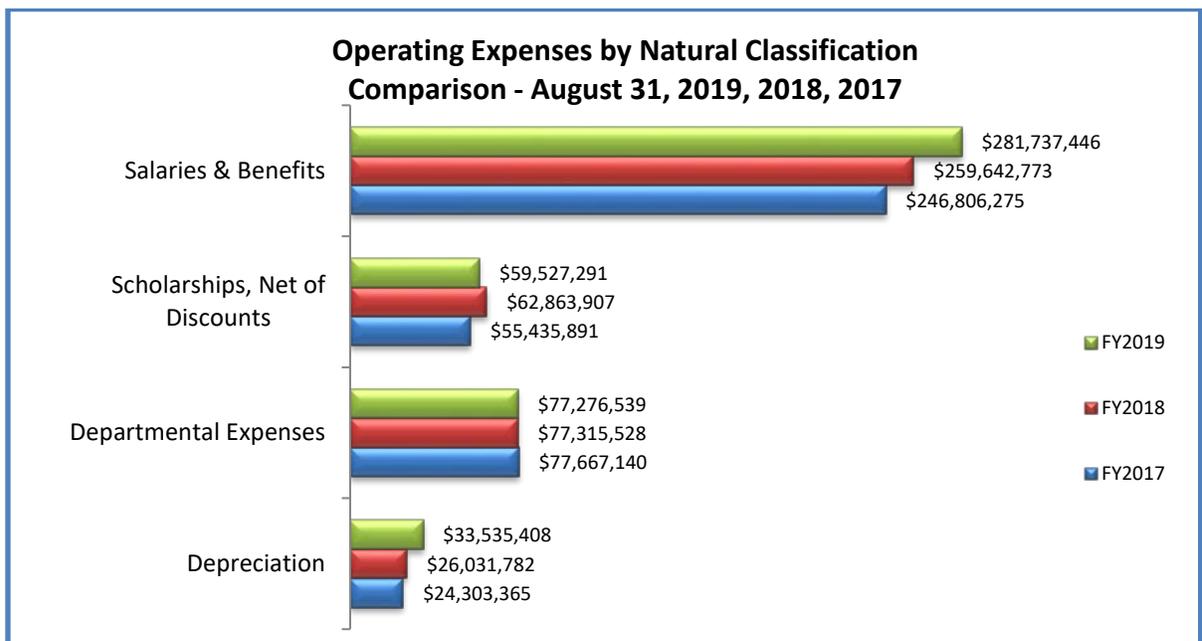
**Expenses**

Total Operating Expenses increased by \$26.2 million due largely to increases in expenses related to GASB 75 (OPEB) and GASB 68 (Pension) and depreciation which were offset by decreases in scholarship expenses. GASB 75 (OPEB) and GASB 68 (Pension) expenses were higher than last year by \$17.2 and \$5.4 million, respectively (see the chart below), for the reasons described earlier in the MD&A. While the Board of Trustees approved a 2% salary increase for all employees effective September 1, 2018, the effects of the increase were offset by cost reductions in various areas across the System. Depreciation increased due to the substantial completion of all but one of the 2013 CIP program projects which are now operational and being depreciated. Scholarships were higher in fiscal year 2018 due to a significant number of scholarships awarded to students affected by Hurricane Harvey.

Operating Expenses are presented in two formats: Natural Classification and Functional Classification. The Natural Classification is intended to show “what” the dollars were spent on and the Functional Classification shows “who” spent the dollars.

The schedules below provide a three-year historical record of the use of funds by natural and functional classification. A schedule of pension and OPEB expenses has been added to show the impact of GASB 68 (Pension) and GASB 75 (OPEB) on total expenses for the three-year period. The expenses reported include both restricted and unrestricted funds.

	Operating Expenses by Natural Classification						Change	
	2019	% of Total	2018	% of Total	2017	% of Total	2018 to 2019	2017 to 2018
Salaries & Benefits	\$281,737,446	62.3%	\$259,642,773	61.0%	\$ 246,806,275	61.1%	\$ 22,094,673	\$ 12,836,498
Scholarships, Net of Discounts	59,527,291	13.2%	62,863,907	14.8%	55,435,891	13.7%	(3,336,616)	7,428,016
Departmental Expenses	77,276,539	17.1%	77,315,528	18.2%	77,667,140	19.2%	(38,989)	(351,612)
Depreciation	33,535,408	7.4%	26,031,782	6.1%	24,303,365	6.0%	7,503,626	1,728,417
<b>Total Operating Expenses</b>	<b>\$452,076,684</b>	<b>100%</b>	<b>\$425,853,990</b>	<b>100%</b>	<b>\$ 404,212,671</b>	<b>100%</b>	<b>\$ 26,222,694</b>	<b>\$ 21,641,319</b>



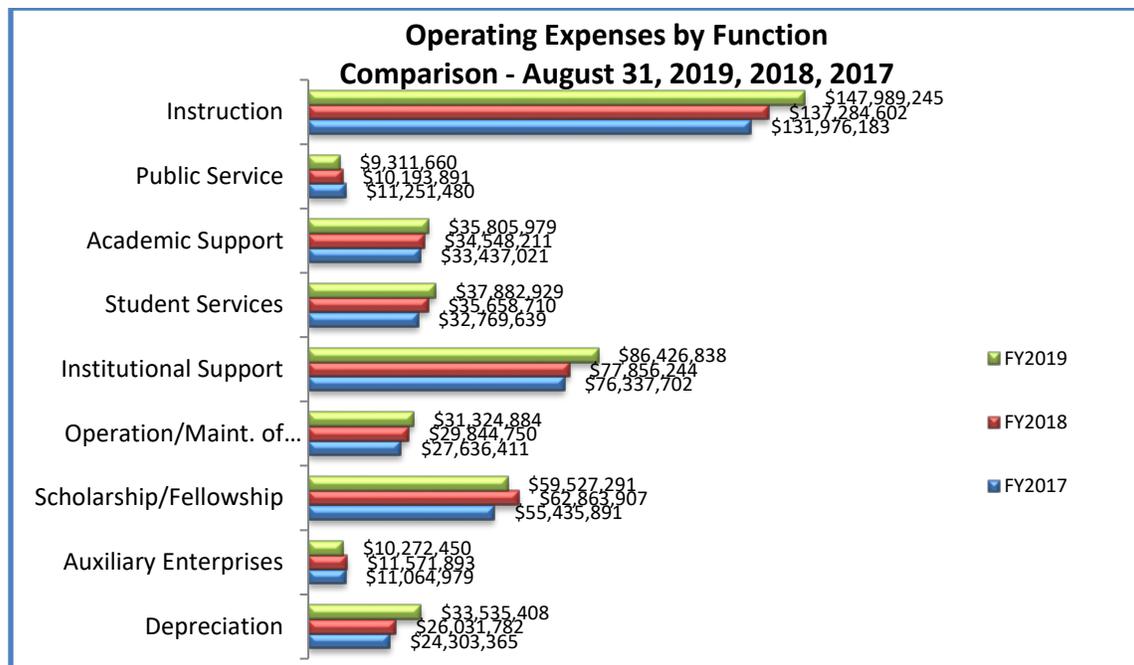
**HOUSTON COMMUNITY COLLEGE SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Unaudited)**

**Pension and OPEB Expenses  
(Included in Salaries & Benefits)**

	Pension and OPEB Expenses (Included in Salaries & Benefits)						Change	
	2019	% of Total	2018	% of Total	2017	% of Total	2018 to 2019	2017 to 2018
GASB 68 - Pension	\$ 6,745,629	26.0%	\$ 1,350,865	40.6%	\$ 1,738,635	100.0%	\$ 5,394,764	\$ (387,770)
GASB 75 - OPEB	19,163,889	74.0%	1,977,968	59.4%	-	0.0%	17,185,921	1,977,968
<b>Total Pension &amp; OPEB Expenses</b>	<b>\$ 25,909,518</b>	<b>100%</b>	<b>\$ 3,328,833</b>	<b>100%</b>	<b>\$ 1,738,635</b>	<b>100%</b>	<b>\$ 22,580,685</b>	<b>\$ 1,590,198</b>

	Operating Expenses by Functional Classification						Change	
	2019	% of Total	2018	% of Total	2017	% of Total	2018 to 2019*	2017 to 2018
Instruction	\$ 147,989,245	32.7%	\$ 137,284,602	32.2%	\$ 131,976,183	32.7%	\$ 10,704,643	\$ 5,308,419
Public Service	9,311,660	2.1%	10,193,891	2.4%	11,251,480	2.8%	(882,231)	(1,057,589)
Academic Support	35,805,979	7.9%	34,548,211	8.1%	33,437,021	8.3%	1,257,768	1,111,190
Student Services	37,882,929	8.4%	35,658,710	8.4%	32,769,639	8.1%	2,224,219	2,889,071
Institutional Support	86,426,838	19.1%	77,856,244	18.3%	76,337,702	18.9%	8,570,594	1,518,542
Operation/Maint. of Plant	31,324,884	6.9%	29,844,750	7.0%	27,636,411	6.8%	1,480,134	2,208,339
Scholarship/Fellowship	59,527,291	13.2%	62,863,907	14.8%	55,435,891	13.7%	(3,336,616)	7,428,016
Auxiliary Enterprises	10,272,450	2.3%	11,571,893	2.7%	11,064,979	2.7%	(1,299,443)	506,914
Depreciation	33,535,408	7.4%	26,031,782	6.1%	24,303,365	6.0%	7,503,626	1,728,417
<b>Total Operating Expense</b>	<b>\$ 452,076,684</b>	<b>100%</b>	<b>\$ 425,853,990</b>	<b>100%</b>	<b>\$ 404,212,671</b>	<b>100%</b>	<b>\$ 26,222,694</b>	<b>\$ 21,641,319</b>

\*Most of the functional categories with increases are primarily related to increases in the GASB Pension and OPEB expenses since salaries and benefits are included in these functional categories. For instance in the Institutional Support category, approximately \$7.4 million or 86% of the \$8.6 million total increase from 2018 to 2019 is related to the GASB Pension and OPEB expenses.



HOUSTON COMMUNITY COLLEGE SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Unaudited)

**Fiscal Year 2019:**

Operating expenses by functional classification increased in fiscal year 2019 by \$26.2 million or 6.2% compared to fiscal year 2018. The increases in most of the functional areas such as instruction, academic support, student services and institutional support can be attributed to salaries and benefits which are higher due to the increase in expenses recorded in fiscal year 2019 relative to fiscal year 2018 related to GASB 68 (Pension) and GASB 75 (OPEB). Operations and maintenance of plant has increased over fiscal year 2018 primarily due to the new buildings that have been placed in service. Depreciation increased due to the substantial completion of all but one of the 2013 CIP program projects which are now operational and being depreciated. Last year scholarship expenses were \$3.3 million higher than this fiscal year due to scholarships awarded during fiscal year 2018 to students affected by Hurricane Harvey.

**Fiscal Year 2018:**

Operating expenses by functional classification increased in fiscal year 2018 by \$21.6 million or 5.5% compared to fiscal year 2017. The increases in most of the functional areas such as instruction, academic support, student services and institutional support can be attributed to salaries and benefits which are up due to the recommendations from a previous compensation study (last year of the recommended increase resulting from the study) and the 2% salary increase. Operations and maintenance of plant has increased over fiscal year 2017 due to the new buildings that have been placed in service. Scholarships increased during the period to support our students during Hurricane Harvey. Depreciation increased due to the completion of most of the 2013 CIP program projects which are now operational and being depreciated.

**The Foundation**

As required by the reporting entity criteria in GASB 61, HCC includes the Statements of Financial Position and Statements of Activities for the Foundation in its CAFR. For the fiscal year ended August 31, 2019, the Foundation's total assets were \$15.5 million, an amount that represents 1% of HCC's total assets for the same period. For the fiscal year ended August 31, 2018, the Foundation's total assets were \$16.5 million, which represents 1% of HCC's total assets for the same fiscal year. The income from the Foundation is partially used to fund scholarships and grants for the students of HCC. However, most of the Foundation's net assets have donor restrictions and therefore are not available for HCC's direct use. The Foundation net assets with donor restrictions were \$14.7 million and \$15.6 million for the fiscal years ended August 31, 2019 and 2018, respectively.

**Statements of Cash Flows**

The Statements of Cash Flows combine information from the Statements of Net Position and the Statements of Revenues, Expenses, and Changes in Net Position to illustrate the effect of various actions of HCC on the availability and ultimate change in the amount of cash from one year to the next. The cash provided or used by operations, capital and non-capital financing, and investing activities combine to show the net change in cash and cash equivalents. The final portion of the Statements of Cash Flows reconciles the net income or loss from operations to the cash provided or used by operations.

HOUSTON COMMUNITY COLLEGE SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Unaudited)

**Capital Assets and Debt Administration**

Changes in net capital assets are the result of acquisitions, improvements, disposals and changes in accumulated depreciation. In accordance with GASB Statements No. 34 and 35, the System does not record the cost of capital assets as an expense at the time of acquisition or completion of the asset, but rather shows the expense systematically over the expected life of the asset as depreciation expense. The amount shown in the accounting records for the value of the asset will decrease each year until the asset is fully depreciated or removed from service. As a result, the amount of capital assets shown in the Statements of Net Position may decrease from one year to another, even though new assets have been acquired during the year. Capital assets subject to depreciation include improvements to land (such as parking lots and signage), buildings and other real estate improvements, library books and furniture and equipment. Land is not depreciated.

**Capital Improvement Program**

As of the end of fiscal year 2019 all of the 2013 CIP projects were substantially complete except the Culinary Project at Central Campus. It is expected to be completed in fiscal year 2020. The other projects were completed in different fiscal years starting from 2016 to 2019. The North Forest Project was the only project completed and placed in service during fiscal year 2019. In August 2019, the Board approved a new list of projects, collectively called the 2013 CIP 2.0 Program, that will be funded from residual savings from the 2013 CIP program. Included below is a summary of the 2013 CIP 2.0 projects approved by the Board. The West Houston Expansion and the Regional Emergency Response Training Center with a budget of \$55 million and \$17 million respectively are additional projects approved by the Board in fiscal year 2019.

**2013 CIP 2.0 Program**

	<u>Descriptions</u>	<u>Capital Budget</u>
A	Complete Interior buildout/FFE Central Culinary Shell Spaces (two)	\$ 2,550,000
B	Residential wiring lab construction at Central, Central South, Brays Oaks, Gulfton	800,000
C	Construct Carpentry Labs at Central, Central South and Stafford	530,000
D	Certified Nursing Aid (CNA) NURSING BED EXPANSION AT Central South (funded by HCC 2020 Budget)	N/A
E	Line Worker training facility construction at Northeast Campus	550,000
F	Signage, Graphics and wayfinding program - Systemwide	6,000,000
G	Construct Eastside "view corridor" and main entrance from I-45 North	1,900,000
H	Construct main "view corridor" and access for Fraga and Navigation	1,900,000
I	Design and construct auditorium/planetarium (100 people) at the Fraga STEM Building in existing "shell" spaces	860,000
J	Construct Challenger Learning Center at Eastside Campus	5,500,000
K	Construct Collaboratoriums at each College (buildings TBD)	450,000
L	West Houston Institute FFE - 2013 CIP	380,000
	<b>Total</b>	<b>\$ 21,420,000</b>

Note: Projects G, H, and I require scope development for accurate budgets  
 Projects G and H require valuation and verification of land cost  
 Project J requires advanced programming and refined construction estimates to incorporate STEM programs

**West Houston Expansion** – The System will relocate and increase the size of the Katy Campus to meet the needs of the far west Houston area, which is in HCC's current service area, and to expand our programs to meet the growing needs for science and workforce programs, such as nursing, at the most economical cost and value. With the support of the HCC Board of Trustees, the community, and a unique partnership with the University of Houston, HCC will co-locate its Katy Campus with the University of Houston to provide a seamless transfer program arrangement, accommodate additional instruction delivery and expand science facilities. The new

HOUSTON COMMUNITY COLLEGE SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Unaudited)

estimated 140,000 square foot building is anticipated to cost \$54 million including the land, design and construction, but will be offset by the proceeds from the sale of the existing Katy campus.

**Regional Emergency Response Training Center (RERTC)** – HCC continues to address sustainability and the long-term needs of the community by expanding its training offerings. The college plans to increase the size of the Northeast campus first response and public service training programs to meet the expectations of our community, the Gulf coast, and our state. With the support of the HCC Board of Trustees, we will build a unique facility that provides controlled, yet realistic, training scenarios in flood, rising and swift-water conditions. Our emergency responders are in need of a facility of this caliber and we are dedicated to providing it. To this end, HCC requested exceptional item funding totaling \$12 million via its Legislative Appropriations Request (LAR), submitted in August 2018 for the 2020-2021 biennium, to design, develop and construct the RERTC at the Northeast Campus. In consideration of the rationale behind this initiative, the 86<sup>th</sup> Texas Legislature appropriated \$2.5 million for this project. HCC will continue to solicit funding from interested parties including our surrounding community, local, state and federal agencies, private sector industry and the educational sector. Depending on the final design and functionality, the project could cost between \$17 and \$24 million.

**Capital Assets, Net**

	2019	2018	2017	Change	
				2018 to 2019	2017 to 2018
Capital Assets:					
Land	\$ 147,090,804	\$ 134,932,685	\$ 155,501,834	\$ 12,158,119	\$ (20,569,149)
Construction in Progress	23,719,776	47,421,069	233,891,653	(23,701,293)	(186,470,584)
Buildings	906,987,920	884,382,886	672,517,059	22,605,034	211,865,827
Other Real Estate Improvements	88,871,038	91,969,910	95,583,959	(3,098,872)	(3,614,049)
Library Books	3,068,980	3,149,404	3,231,749	(80,424)	(82,345)
Furniture, Machinery, Vehicles and Other Equipment	30,033,449	31,400,445	29,981,435	(1,366,996)	1,419,010
Telecommunications & Peripheral Equipment	4,538,007	6,614,984	6,732,741	(2,076,977)	(117,757)
Total Capital Assets, Net	<u>\$ 1,204,309,974</u>	<u>\$ 1,199,871,386</u>	<u>\$ 1,197,440,430</u>	<u>\$ 4,438,588</u>	<u>\$ 2,430,956</u>

**Fiscal Year 2019:**

Net capital assets increased \$4.4 million from fiscal year 2018 to fiscal year 2019. All but one (Central Campus Culinary Institute) of the 2013 CIP projects were substantially completed and moved from CIP to their respective asset categories and are now being depreciated. As a result, depreciation was more than the prior year offsetting some of the current year asset and CIP additions. In fiscal year 2019, the Board approved \$55 million for the West Houston Expansion Project and \$12.5 million of that was used to purchase land for the new facility.

**Fiscal Year 2018:**

Net capital assets increased \$2.4 million from fiscal year 2017 to fiscal year 2018. All but two (North Forest Campus and the Central Campus Culinary Institute) of the CIP projects were substantially complete and moved from CIP to their respective asset categories and are now being depreciated. As a result, depreciation was more than the prior year offsetting some of the current year asset and CIP additions. In addition, there was a \$20.6 million decrease in land due to the sale of property.

See Footnote 6 of the financial statements for additional information regarding the capital asset activity.

HOUSTON COMMUNITY COLLEGE SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Unaudited)

**Outstanding Debt**

	2019	2018	2017	Change	
				2018 to 2019	2017 to 2018
Outstanding Debt:					
Notes Payable	\$ 96,027,514	\$ 101,637,261	\$ 109,188,863	\$ (5,609,747)	\$ (7,551,602)
Tax-Exempt Note Purchase Agreement	12,804,100	-	-	12,804,100	-
Revenue Bonds	191,380,394	217,121,333	240,546,862	(25,740,939)	(23,425,529)
General Obligation Bonds	497,085,140	511,685,732	524,978,521	(14,600,592)	(13,292,790)
Maintenance Tax Bonds	30,747,737	33,873,578	34,717,506	(3,125,840)	(843,929)
Total Outstanding Debt	<u>\$ 828,044,885</u>	<u>\$ 864,317,903</u>	<u>\$ 909,431,752</u>	<u>\$ (36,273,018)</u>	<u>\$ (45,113,850)</u>

**Fiscal Year 2019:**

There was a \$36.2 million decrease in outstanding debt in fiscal year 2019 attributable to principal payments of \$37.5 million, premium amortization of \$7.3 million, and principal reductions of \$4.2 million due to refunding of bonds. These decreases were offset by new borrowings of \$12.8 million for land related to the West Houston Expansion project.

**Fiscal Year 2018:**

There was a \$45.1 million decrease in outstanding debt in fiscal year 2018 which was attributable to principal payments of \$39.6 million and premium amortization of \$7.45 million, offset by new borrowings of \$2.0 million for the LoanSTAR Program.

See footnotes 7 through 11 of the financial statements for additional information regarding outstanding debt activity.

**FUTURE OUTLOOK**

**Houston's Economic Outlook**

While most indications are that Houston's economy will experience continued growth at a slow to moderate pace, there are national and regional indicators that a recession may be in the future. While we can't predict the future, any change in the economy will likely have some impact on the System. Typically in periods of growth, property values rise and enrollment can decline if workers are in high demand. In periods of recession, property values rise at a much slower pace or decline and enrollment can increase as the unemployment rate rises and unemployed workers go back to school to increase their skills and opportunities.

**Ad Valorem Taxes**

The total ad valorem tax rate for calendar year 2019 (fiscal year 2020) remains the same as calendar year 2018 (fiscal year 2019) at \$0.100263. The debt service tax rate of \$0.022431 per \$100 of assessed valuation is lower than last year's rate (\$0.023512) since the principal and interest payments for fiscal year 2020 are lower than the amounts due in fiscal year 2019. In contrast, the maintenance and operations (M & O) tax rate for fiscal year 2020 (\$0.077832 per \$100 of assessed valuation) is slightly higher than the fiscal year 2019 M & O rate (\$0.076751) to fund increases in salaries, benefits and other operating expenses. The certified taxable values for calendar 2019 (fiscal year 2020) are 4.3% higher than the prior year contributing to an increase in estimated total tax revenues of \$10 million. Property values have been trending up given the strong local economy.

HOUSTON COMMUNITY COLLEGE SYSTEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(Unaudited)

**Tuition and Fees**

The Board approved additional tuition and fee increases effective Fall 2019. Although the System has had two recent rate increases in Spring and Fall 2019, HCC's in-district rates remain the lowest among our local peers, and our out-of-district/state rates are competitive. One of the Board of Trustees priorities is to keep education affordable for HCC's students.

**Financial Reserves**

In June 2018, the Board of Trustees revised the financial reserves policy to establish 180 days (+/-5%) of operating expenditures as the minimum level for the College's Annual Days Cash on Hand. The previous policy required the College to maintain a fund balance of nine (9) to eleven (11) percent of general fund revenue as of August 31 of each year. The revised policy provides for six months of reserves for unforeseen circumstances. HCC's Days Cash on Hand at August 31, 2019 and 2018 was 234 and 226, respectively.

Given the excess Days Cash on Hand at August 31, 2018, the Board of Trustees approved using \$8 million of these excess reserves to fund deferred maintenance in fiscal year 2020. The fiscal year 2020 approved operating budget includes an additional \$3 million for a total commitment of \$11 million of funding for priority projects identified in the facility conditions assessment completed during fiscal year 2019.

**Opportunities**

HCC's strong financial position, prudent debt reduction strategies and excess Days Cash on Hand will allow the Board of Trustees and the administration to continue to address funding of its deferred maintenance and GASB liabilities in the fiscal year 2021 – 2023 integrated budget and planning development process, which began in October 2019.

HCC's outlook for the foreseeable future continues to be positive as a result of its strategic leadership, fiscal management and stable local economy.

**CONTACTING THE SYSTEM'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the citizens, taxpayers, students, investors, and creditors with a general overview of the System's finances and to demonstrate the System's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact the Senior Vice Chancellor of Finance and Administration's office at 3100 Main, Houston, Texas 77002. Additional information can be found on HCC's Financial Transparency page at the following link: <http://www.hccs.edu/about-hcc/transparency/>.

HOUSTON COMMUNITY COLLEGE SYSTEM  
STATEMENTS OF NET POSITION  
AUGUST 31, 2019 AND 2018

Exhibit 1

ASSETS	2019	2018
<b>CURRENT ASSETS:</b>		
Cash and Cash Equivalents (Note 4)	\$ 94,740,550	\$ 65,256,699
Accounts Receivable and Other Receivables, Net (Note 5)	26,230,494	30,444,962
Prepaid Charges	9,779,544	9,527,608
Restricted Short - Term Investments (Note 4)	2,622,649	2,964,123
Other Short - Term Investments (Note 4)	114,496,727	78,298,098
Total Current Assets	247,869,964	186,491,490
<b>NON - CURRENT ASSETS:</b>		
Restricted Cash and Cash Equivalents (Note 4)	41,500,420	63,880,725
Other Long - Term Investments (Note 4)	1,499,254	47,267,483
Restricted Long - Term Investments (Note 4)	37,925	3,090,035
Capital Assets, Net (Note 6)	1,204,309,974	1,199,871,386
Total Non-current Assets	1,247,347,573	1,314,109,629
<b>TOTAL ASSETS</b>	1,495,217,537	1,500,601,119
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Advance Funding Valuation	7,310,083	8,281,520
OPEB	106,771,070	2,582,938
Pension	45,154,241	14,134,885
Total Deferred Outflows of Resources	159,235,394	24,999,343
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts Payable (Note 5)	12,632,897	14,636,119
Accrued Liabilities	12,437,192	13,039,448
Compensated Absences (Note 16)	3,713,263	3,796,103
Funds Held for Others	833,963	889,415
Unearned Revenues	45,482,734	42,488,137
Net OPEB Liability - Current Portion (Note 7 and 20)	2,405,639	430,061
Notes Payable - Current Portion (Note 7 and 11)	7,510,687	6,515,000
Bonds Payable - Current Portion (Note 7 and 8)	32,810,000	31,855,000
Total Current Liabilities	117,826,375	113,649,283
<b>NON-CURRENT LIABILITIES:</b>		
Net OPEB Liability (Note 7 and 14)	161,134,022	84,325,785
Net Pension Liability (Note 7 and 20)	107,909,379	74,290,183
Notes Payable (Note 7 and 11)	101,320,927	95,122,261
Bonds Payable (Note 7 and 8)	686,403,271	730,825,642
Total Non-current Liabilities	1,056,767,599	984,563,871
<b>TOTAL LIABILITIES</b>	1,174,593,974	1,098,213,154
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Advance Funding Valuation	3,298,763	2,435,374
OPEB	63,300,384	18,739,982
Pension	20,235,389	16,089,600
Total Deferred Inflows of Resources	86,834,536	37,264,956
<b>NET POSITION</b>		
Net Investment in Capital Assets	383,077,877	363,332,433
Restricted for		
Expendable		
Loans	393,380	238,697
Debt Service	12,647,475	11,881,822
Unrestricted	(3,094,311)	14,669,400
<b>TOTAL NET POSITION</b>	\$ 393,024,421	\$ 390,122,352

The accompanying notes are an integral part of the financial statements.

**Houston Community College Foundation  
Statements of Financial Position**

<i>August 31,</i>	2019	2018
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 484,205	\$ 440,775
Contributions receivable	356,943	452,263
Prepays and other current assets	57,313	55,248
<b>Total current assets</b>	<b>898,461</b>	<b>948,286</b>
Noncurrent assets		
Investments	4,338,330	5,422,194
Investments, restricted for endowments	10,219,792	10,166,522
<b>Total noncurrent assets</b>	<b>14,558,122</b>	<b>15,588,716</b>
<b>Total assets</b>	<b>\$ 15,456,583</b>	<b>\$ 16,537,002</b>
<b>Liabilities</b>		
Current liabilities		
Due to related party	\$ 177,103	\$ 287,029
<b>Total current liabilities</b>	<b>177,103</b>	<b>287,029</b>
<b>Commitments and contingencies</b>		
<b>Net assets</b>		
Without donor restrictions	552,523	667,057
With donor restrictions	14,726,957	15,582,916
<b>Total net assets</b>	<b>15,279,480</b>	<b>16,249,973</b>
<b>Total liabilities and net assets</b>	<b>\$ 15,456,583</b>	<b>\$ 16,537,002</b>

The accompanying notes are an integral part of these financial statements.

HOUSTON COMMUNITY COLLEGE SYSTEM  
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018

Exhibit 2

	2019	2018
<b>OPERATING REVENUES:</b>		
Tuition and Fees, Net of Discounts	\$ 76,925,390	\$ 75,875,184
Federal Grants and Contracts	13,664,066	14,618,765
State Grants and Contracts	5,257,785	7,241,239
Local Grants and Contracts	88,039	97,715
Non-Governmental Grants and Contracts	1,448,396	1,350,083
Sales and Services of Educational Activities	447,777	281,262
Auxiliary Enterprises	10,769,661	9,951,241
Total Operating Revenues (Schedule A)	108,601,114	109,415,489
<b>OPERATING EXPENSES:</b>		
Instruction	147,989,245	137,284,602
Public Service	9,311,660	10,193,891
Academic Support	35,805,979	34,548,211
Student Services	37,882,929	35,658,710
Institutional Support	86,426,838	77,856,244
Operations and Maintenance	31,324,884	29,844,750
Scholarships and Fellowships	59,527,291	62,863,907
Auxiliary Enterprises	10,272,450	11,571,893
Depreciation	33,535,408	26,031,782
Total Operating Expenses (Schedule B)	452,076,684	425,853,990
<b>OPERATING LOSS</b>	<b>(343,475,570)</b>	<b>(316,438,501)</b>
<b>NON-OPERATING REVENUES (EXPENSES):</b>		
State Appropriations	86,745,264	83,382,430
Maintenance Ad Valorem Taxes	152,465,955	150,689,019
Debt Service Ad Valorem Taxes	46,902,232	46,321,795
Gifts	2,351,677	2,009,979
Investment Income, Net	7,155,919	4,221,227
Interest on Capital Related Debt	(28,956,205)	(30,411,867)
Title IV Grants	87,471,633	88,168,184
Hurricane Harvey	148,521	-
Hurricane Harvey Expenses (Net of Recoveries)	-	(184,313)
Gain on sale of Capital Assets	-	725,332
Other Non-operating Revenues	2,811,091	2,507,767
Other Non-operating Expenses	(10,718,448)	(8,395,813)
Net Non-operating Revenues (Schedule C)	346,377,639	339,033,740
Increase In Net Position	2,902,069	22,595,239
Net Position, Beginning of Year	390,122,352	466,462,035
Cumulative effect for changes in Accounting Principle	-	(98,934,922)
Net Position, Beginning of Year Restated	-	367,527,113
Net Position, End of Year	\$ 393,024,421	\$ 390,122,352

The accompanying notes are an integral part of the financial statements.

**Houston Community College Foundation**  
**Statement of Activities**

<i>For the year ended August 31,</i>	<b>2019</b>		
	Without Donor Restrictions	With Donor Restrictions	Total
<b>Support and income</b>			
Contributions and donations	\$ 252,126	\$ 2,503,871	\$ 2,755,997
In-kind revenue from the System	1,236,271	-	1,236,271
Investment return, net	170,398	(239,348)	(68,950)
Vending and other income	210,000	-	210,000
Net assets released from restrictions	3,120,482	(3,120,482)	-
<b>Total support and income</b>	<b>4,989,277</b>	<b>(855,959)</b>	<b>4,133,318</b>
<b>Program services</b>			
Scholarships	1,990,433	-	1,990,433
Grant distributions	1,458,917	-	1,458,917
Student service distributions	126,000	-	126,000
Donated items	358,624	-	358,624
Other program services	4,500	-	4,500
<b>Total program services</b>	<b>3,938,474</b>	<b>-</b>	<b>3,938,474</b>
<b>Support services</b>			
Fundraising	725,492	-	725,492
Administration	439,845	-	439,845
<b>Total support services</b>	<b>1,165,337</b>	<b>-</b>	<b>1,165,337</b>
<b>Total program and support services</b>	<b>5,103,811</b>	<b>-</b>	<b>5,103,811</b>
Decrease in net assets	(114,534)	(855,959)	(970,493)
<b>Net assets, beginning of year</b>	<b>667,057</b>	<b>15,582,916</b>	<b>16,249,973</b>
<b>Net assets, end of year</b>	<b>\$ 552,523</b>	<b>\$ 14,726,957</b>	<b>\$ 15,279,480</b>

The accompanying notes are an integral part of these financial statements.

## Houston Community College Foundation Statement of Activities

<i>For the year ended August 31,</i>	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
<b>Support and income</b>			
Contributions and donations	\$ 323,089	3,061,237	\$ 3,384,326
In-kind revenue from the System	1,081,570	-	1,081,570
Investment return, net	(78,702)	635,241	556,539
Vending and other income	210,000	-	210,000
Net assets released from restrictions	3,110,466	(3,110,466)	-
<b>Total support and income</b>	<b>4,646,423</b>	<b>586,012</b>	<b>5,232,435</b>
<b>Program services</b>			
Scholarships	1,566,992	-	1,566,992
Grant distributions	1,256,393	-	1,256,393
Student service distributions	126,000	-	126,000
Donated items	492,209	-	492,209
Other program services	31,677	-	31,677
<b>Total program services</b>	<b>3,473,271</b>	<b>-</b>	<b>3,473,271</b>
<b>Support services</b>			
Fundraising	665,601	-	665,601
Administration	420,239	-	420,239
<b>Total support services</b>	<b>1,085,840</b>	<b>-</b>	<b>1,085,840</b>
<b>Total program and support services</b>	<b>4,559,111</b>	<b>-</b>	<b>4,559,111</b>
Increase in net assets	87,312	586,012	673,324
<b>Net assets, beginning of year</b>	<b>579,745</b>	<b>14,996,904</b>	<b>15,576,649</b>
<b>Net assets, end of year</b>	<b>\$ 667,057</b>	<b>\$ 15,582,916</b>	<b>\$ 16,249,973</b>

The accompanying notes are an integral part of these financial statements.

HOUSTON COMMUNITY COLLEGE SYSTEM  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018

Exhibit 3

	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from Students and Other Customers	\$ 92,051,044	\$ 85,922,377
Receipts from Grants and Contracts	21,723,040	22,945,939
Payments to Suppliers for Goods and Services	(76,204,689)	(85,972,154)
Payments to or On Behalf of Employees	(257,260,961)	(257,415,856)
Payments for Scholarships and Fellowships	(59,737,797)	(63,918,083)
Other Non-operating Revenue	1,533,606	954,397
Net Cash Used in Operating Activities	(277,895,757)	(297,483,380)
 <b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Receipts from Ad Valorem Taxes	198,327,778	195,634,672
Receipts from State Allocations	86,745,264	83,382,430
Receipts from Private Gifts	2,351,674	2,009,979
Payment of Taxes	(226,150)	-
Received Federal Direct Student Loans (SA: Federal Note 4)	74,170,077	81,646,184
Disbursement of Federal Direct Student Loans (SA: Federal Note 4)	(74,170,077)	(81,646,184)
Receipts from Title IV	87,471,633	88,168,184
Receipts from Harvey Relief	81,304	10,000
Payments to Suppliers/Employees for Harvey Relief	-	(840,952)
Net Cash Provided by Non-capital Financing Activities	374,751,503	368,364,313
 <b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>		
Receipts from the Issuance of Capital Debt	44,995,127	2,033,187
Bond Issue Cost Paid on New Capital Debt Issue	(496,269)	-
Proceeds from Sale of Capital Assets (Land)	-	15,405,157
Purchase of Capital Assets	(39,345,581)	(45,135,306)
Payments of Capital Related Expenses	(6,318,308)	(4,570,442)
Payments on Capital Debt and Leases - Principal	(72,135,951)	(39,655,000)
Payments on Capital Debt and Leases - Interest and Fees	(36,570,321)	(38,203,396)
Net Cash Used in Financing Activities	(109,871,303)	(110,125,800)
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from Sales and Maturities of Investments	96,946,252	158,827,638
Interest on Investments	7,155,919	4,221,227
Purchase of Investments	(83,983,068)	(118,690,539)
Net Cash Provided by Investing Activities	20,119,103	44,358,326
 <b>INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		
	7,103,546	5,113,459
<b>CASH AND RESTRICTED CASH EQUIVALENTS - BEG OF YEAR (EXHIBIT 1)</b>	129,137,424	124,023,965
<b>CASH AND RESTRICTED CASH EQUIVALENTS - END OF YEAR (EXHIBIT 1)</b>	\$ 136,240,970	\$ 129,137,424

The accompanying notes are an integral part of the financial statements.

HOUSTON COMMUNITY COLLEGE SYSTEM  
STATEMENTS OF CASH FLOWS - CONTINUED  
FOR THE YEARS ENDED AUGUST 31, 2019 AND 2018

Exhibit 3

**RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED  
IN OPERATING ACTIVITIES**

	2019	2018
Operating loss	\$ (343,475,570)	\$ (316,438,501)
Adjustments to Reconcile Operating Loss to Net Cash Used in Operating Activities:		
Depreciation Expense	33,535,408	26,031,782
Bad Debt Expense	833,561	-
OPEB Expense	33,839,898	4,535,812
Pension Expense	11,875,068	5,214,970
Changes in Assets and Liabilities:		
Accounts and Other Receivables	3,540,293	(127,326)
Prepaid Charges	(251,938)	(3,953,447)
Accounts Payables and Accruals	(877,305)	(4,335,990)
Deferred Outflows	(180,922,453)	(5,537,410)
Deferred Inflows	48,706,191	23,963,684
Unearned Revenues	3,036,371	534,078
Compensated Absences	(82,841)	322,805
Net Pension Liability	33,619,196	(11,175,199)
Net OPEB Liability	78,783,815	(16,509,415)
Funds Held for Others	(55,451)	(9,223)
Total Adjustments	65,579,813	18,955,121
Net Cash Used in Operating Activities	\$ (277,895,757)	\$ (297,483,380)

**Schedule of non-cash investing, capital and financing activities:**

Payments Made Directly by State for Benefits	\$ 18,562,857	\$ 13,071,927
Increase (decrease) in Fair Value of Investments	129,080	74,319
Amortization of Premium on Bonds	7,346,924	7,492,037
Amortization of Deferred Charges on Bonds Refunding	971,437	788,759
Net Non-cash Investing, Capital and Financing Activities	\$ 27,010,298	\$ 21,427,042

The accompanying notes are an integral part of the financial statements.

HOUSTON COMMUNITY COLLEGE SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – REPORTING ENTITY

Houston Community College System (HCC or the System) was established on May 18, 1971, in accordance with the laws of the State of Texas, and serves the educational needs of its service area as outlined in Chapter 130 of the Texas Education Code. The service area includes the Houston Independent School District, Alief Independent School District, Katy Independent School District, Spring Branch Independent School District, Stafford Municipal School District, and the portions of Fort Bend Independent School District located in the cities of Houston, Pearland and Missouri City. Those portions of the service area located in the Katy and Spring Branch Independent School Districts lie outside of the taxing authority of HCC. The System is a comprehensive public two-year institution offering academic, general, occupational, development, and continuing adult education programs through a network of locations.

HCC is considered to be a special purpose, primary government involved in business-type activities as defined by the Governmental Accounting Standards Board. While the System receives funding from local, state and federal sources, and must comply with the spending, reporting, and record keeping requirements of these entities, it is not a component unit of any other governmental entity.

The Governmental Accounting Standards Board (GASB) provides guidance in determining whether certain organizations related to the System should be reported as component units based on the nature and significance of their relationship with the primary government. Using the criteria established by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus-An Amendment of GASB Statements No. 14 and No. 34*, and GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units – An Amendment of GASB Statement No. 14*, the System’s management has determined that the Houston Community College Foundation (the Foundation) and the Houston Community College System Public Facility Corporation (PFC) should be reported as component units of the System using a discrete and blended presentation, respectively. Note 23 to the financial statements describe the Foundation and PFC and their financial statement presentation in more detail.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Guidelines

The significant accounting policies followed by the System in preparing these financial statements are in accordance with accounting principles generally accepted in the United States of America as prescribed by GASB. The accompanying financial statements are also in accordance with the Texas Higher Education Coordinating Board’s (THECB) *Annual Financial Reporting Requirements for Texas Public Community and Junior Colleges*.

Basis of Accounting

HCC’s financial statements have been prepared on the accrual basis of accounting whereby all revenues are recorded when earned and all expenses are recorded when they have been reduced to a legal or contractual obligation to pay.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditures of funds are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration. Under Texas law, appropriations lapse at August 31 of each year and encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year’s budget.

Tuition Discounting

*Texas Public Education Grants* - Certain tuition amounts are required to be set aside for use as scholarships by qualifying students. This set-aside, called the Texas Public Education Grant (TPEG), is shown with tuition and fee revenue amounts as a separate set-aside amount (Texas Education Code §56.033). When the award is used

HOUSTON COMMUNITY COLLEGE SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

by the student for tuition and fees, the amount is recorded as tuition discount. If the amount is dispersed directly to the student, the amount is recorded as a scholarship expense

*Title IV, Higher Education Act (HEA) Program Funds* - Certain Title IV Higher Education Act Program funds are received by the System to pass-through to the student. These funds are initially received by the System and recorded as grant revenue. When the award is used by the student for tuition and fees, the amount is recorded as tuition discount. If the amount is dispersed directly to the student, the amount is recorded as a scholarship expense.

*Other Tuition Discounts* - Student tuition and fees revenue are reported net of scholarship discounts in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. The scholarship discount is the difference between the actual amount for tuition and fees charged by the System and the amount that is paid by students or by third parties on the students' behalves. Student financial assistance grants, such as Pell Grants, and other federal, state or non-governmental programs, are recorded as either operating or non-operating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the System has recorded a scholarship discount. Schedule A provides a detail of tuition discounts.

Budgetary Data

Each community college district in Texas is required by law to prepare an annual operating budget of anticipated revenues and expenditures for each fiscal year beginning September 1. The System's Board of Trustees adopts the budget, which is prepared on the accrual basis of accounting. A copy of the approved budget must be filed with the Texas Higher Education Coordinating Board, Legislative Budget Board, Legislative Reference Library, and Governor's Office of Budget and Planning by December 1 of the respective year.

Cash and Cash Equivalents

Cash and cash equivalents are considered to be cash on hand and demand deposits with original maturities of three months or less from the date of acquisition. The System has classified public funds investment pools comprised of Lone Star Investment Pool (Lone Star) and Texas Local Government Investment Pool (TexPool) to be cash equivalents.

Deferred Outflows of Resources

In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. Governments are permitted only to report deferred outflows of resources in circumstances specifically authorized by the GASB. HCC has deferred charges for other post-employment benefits (OPEB), pension, and advanced funding valuation.

Investments

Investments are reported at fair value. Fair values are based on published market rates. Short-term investments have an original maturity greater than three months but less than one year at the time of purchase. Long-term investments have an original maturity of greater than one year at the time of purchase. Investment funds related to bond issues set aside for construction of capital assets are classified as restricted investments.

Prepaid Charges

Expenses and costs paid in advance which pertain to the subsequent fiscal year(s), such as scholarships disbursed to students before August 31 for fall semester classes are accounted for as prepaid charges.

HOUSTON COMMUNITY COLLEGE SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Capital Assets

Capital assets are stated at cost at the date of acquisition, or fair value at the date of donation. The System reports depreciation under a single line-item, as would be done by an entity reporting as a business-type unit. Depreciation is computed using the straight-line method over the estimated useful lives of the assets and is not allocated to the functional expenditure categories. The threshold for capitalization of assets is \$5,000. Renovations of \$100,000 to buildings and infrastructure and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are charged to operating expense in the year in which the expense is incurred. The following estimated useful lives are used for depreciable assets:

Buildings	50 years
Facilities and Other Improvements	20 years
Furniture, Machinery, Vehicles and Other Equipment	5-10 years
Telecommunications and Peripheral Equipment	5 years
Library Books	15 years
Leasehold Improvements	Lease term

Interest on Capital Related Debt

Interest expense on capital related debt totaled \$28,956,205 and \$30,411,867 for fiscal years 2019 and 2018, respectively. Of these amounts, \$0 was capitalized to construction in process for fiscal years 2019 and 2018, in accordance with provisions of GASB Statement No. 62. In fiscal year 2018, HCC early implemented GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This pronouncement requires interest expense on capital related projects to be recorded as a current period expense, on a prospective basis.

OPEB (Other Post - Employment Benefits)

The System participates in the Employer Retirement System of Texas (ERS) OPEB plan, a multiple-employer cost-sharing-defined benefit OPEB plan with a special funding situation. The fiduciary net position of ERS has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes, for purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, OPEB expense, and information about assets, liabilities and additions to/deductions from ERS's fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

Pensions

The System participates in the Teacher Retirement System of Texas (TRS) pension plan, a multiple-employer cost-sharing-defined benefit pension plan with a special funding situation. The fiduciary net position of TRS has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes, for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities and additions to/deductions from TRS's fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

HOUSTON COMMUNITY COLLEGE SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Deferred Inflows of Resources

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so is not recognized as an inflow of resources (revenue) until that time. Governments are permitted only to report deferred inflows of resources in circumstances specifically authorized by the GASB. The System has deferred inflows of resources for other post-employment benefits (OPEB), pension and advanced funding valuation.

Unearned Revenues

Tuition, fees, and other revenues received and or billed during the current fiscal year, but related to the period after August 31 of any one year have been reported as unearned revenues. Also reported as unearned revenues are public education grant revenues that must be matched to certain scholarship disbursements reported as prepaid charges.

Income Taxes

The System is exempt from income taxes under Internal Revenue Code Section 115, *Income of States, Municipalities, Etc.*, although unrelated business income may be subject to income taxes under Internal Revenue Code Section 511(a)(2)(B), *Imposition of Tax on Unrelated Business Income of Charitable Organizations, etc.* HCC has minimal unrelated business income tax liability for the years ended August 31, 2019 and 2018.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Estimates that have the most impact on financial position and results of operations primarily relate to the collectability of tuition and taxes receivable, the useful lives of property and equipment, certain accrued liabilities, and the allocation of expenses among functional areas. Management believes these estimates and assumptions provide a reasonable basis for the fair presentation of the financial statements.

Operating and Non-operating Revenues and Expenses

The System presents its revenues and expenses as operating or non-operating based on recognition definitions promulgated by GASB. Operating revenues and expenses generally result from providing services in connection with the System's principal ongoing operations. The principal operating revenues are tuition and related fees and contracts and grants. The major non-operating revenues are allocations from the State, ad valorem taxes and Title IV financial aid funds. Ad valorem taxes are recognized as revenues in the year for which they are levied. Operating expenses include the cost of services, administrative expenses and depreciation on capital assets. The bookstore and vending machine operations are owned and managed by third parties.

Adoption of New Accounting Standards

Effective with fiscal year 2019, the System implemented GASB Statement No. 88 *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

HOUSTON COMMUNITY COLLEGE SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The GASB statement listed below was reviewed, but found not to be applicable to the System at this time.

GASB issued Statement No. 83, *Certain Asset Retirement Obligations*.

Effective with fiscal year 2018, the System implemented the following:

GASB Statement No 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

GASB Statement No 85, *Omnibus 2017*.

GASB Statement No 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*.

Pending Pronouncements

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

In November 2016, GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020.

Prior Year Reclassifications

Certain reclassifications have been made to the prior year reported amounts to conform to the current year presentation.

HOUSTON COMMUNITY COLLEGE SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 3 - AUTHORIZED INVESTMENTS

The System is authorized to invest in obligations and instruments as defined in the Public Funds Investment Act (PFIA) (Sec. 2256.001 Texas Government Code). Such investments include (1) obligations of the United States or its agencies, (2) direct obligations of the State of Texas or its agencies, (3) obligations of political subdivisions rated not less than “A” by a national investment rating firm, (4) certificates of deposit, and (5) other instruments and obligations authorized by statute.

NOTE 4 - DEPOSITS AND INVESTMENTS

The carrying amount (book balance) of the System’s demand deposits with financial institutions as of August 31, 2019 and 2018 was \$7,877,568 and \$6,558,728 and bank balances (physical assets) equaled \$11,226,494 and \$8,093,310, respectively. Of the bank balance for fiscal year 2019, \$750,000 is covered by FDIC and \$10,476,494 was covered by collateral pledged in the System’s name. For fiscal year 2018, \$1,000,000 was covered by FDIC and \$7,093,310 was covered by collateral pledged in the System’s name. For both fiscal years, the collateral was held in an account of an independent third party agent.

Cash and deposits included on Exhibit 1, Statements of Net Position, consist of the items reported below:

	2019	2018
Demand Deposits	\$ 7,877,568	\$ 6,558,728
Cash and Cash Equivalents:		
Petty Cash on Hand	54,868	49,862
Cash at Bank	2,228,156	552,889
Money Market Funds	19,776,558	35,062,875
TexPool	76,360,750	62,433,362
Lone Star	29,943,070	24,479,708
Total Cash and Cash Equivalents	128,363,402	122,578,696
Total Cash and Deposits	136,240,970	129,137,424
Restricted Cash and Cash Equivalents	(41,500,420)	(63,880,725)
Cash and Cash Equivalents (Exhibit 1)	\$ 94,740,550	\$ 65,256,699

HOUSTON COMMUNITY COLLEGE SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 - DEPOSITS AND INVESTMENTS - CONTINUED

Items consisting of cash and investments included on Exhibit 1, Statements of Net Position, consist of the items reported below:

<u>Type of Investments</u>	<u>Fair Value at August 31,</u>	
	<u>2019</u>	<u>2018</u>
U.S. Agency Securities	\$ 37,925	\$ 44,224
U.S. Government Securities - Treasuries	38,571,816	40,897,322
U.S. Government Securities - Agency	80,046,814	90,678,193
Total Investments	<u>118,656,555</u>	<u>131,619,739</u>
Total Cash and Deposits	<u>136,240,970</u>	<u>129,137,424</u>
Total Deposits and Investments	<u>\$ 254,897,525</u>	<u>\$ 260,757,163</u>
Cash and Cash Equivalents (Exhibit 1)	\$ 94,740,550	\$ 65,256,699
Restricted Cash and Cash Equivalents (Exhibit 1)	41,500,420	63,880,725
Restricted Long - Term Investments (Exhibit 1)	37,925	3,090,035
Restricted Short - Term Investments (Exhibit 1)	2,622,649	2,964,123
Other Short - Term Investments (Exhibit 1)	114,496,727	78,298,098
Other Long - Term Investments (Exhibit 1)	1,499,254	47,267,483
Total Deposits and Investments	<u>\$ 254,897,525</u>	<u>\$ 260,757,163</u>

As of August 31, 2019 HCC had the following investments and maturities:

<u>Investment Type</u>	<u>Amount</u>	<u>Weighted Average Maturity (Years)</u>
Fannie Mae ARM pool	\$ 37,925	14.31
U.S. Government Securities - Treasuries	38,571,816	0.38
U.S. Government Securities - Agencies	80,046,814	0.41
Investment Pools	106,303,820	-
Cash and Money Market Funds	29,937,150	-
Total Fair Value	<u>\$ 254,897,525</u>	
Portfolio weighted average maturity		0.19

HOUSTON COMMUNITY COLLEGE SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 - DEPOSITS AND INVESTMENTS - CONTINUED

*Interest Rate Risk* - In accordance with state law and the System’s investment policy, the System does not purchase any investments with maturities greater than ten years. The System manages its exposure to declines in fair value by limiting the weighted average maturity of its investment portfolio to two years or less. The System’s intention is to hold all investments to their maturity.

*Credit Risk and Concentration of Credit Risk* - In accordance with state law and the System’s investment policy, investments in mutual funds and investment pools must be rated at least “AAA”, commercial paper must be rated at least “A-1” or “P-1”, and investments in obligations from other states, municipalities, counties, etc. must be rated at least “A”. The System limits the amount it may invest in any one issuer to no more than 50 % of its total investment portfolio. Currently, the United States has an AA+ credit rating as graded by Standard and Poor’s.

Commercial Paper, US Agency, Treasury Notes and bonds classified as Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities relationship to benchmark quoted prices.

The credit quality (ratings) and concentration of credit exposure of securities in excess of 5% of total investments as of August 31, 2019 is as follows:

	<u>Credit Rating</u>	<u>Credit Exposure</u>
Freddie Mac (Federal Home Loan Mortgage Corporation)	AAA	8%
FHLB (Federal Home Loan Bank)	AAA	10%
FFCB (Federal Farm Credit Bank)	AAA	11%

The Texas State Comptroller of Public Accounts (the Comptroller) exercises oversight responsibility over the TexPool. Oversight includes the ability to significantly influence operations, and designate management and accountability for fiscal matters. Additionally, the Comptroller has established an advisory board (the Advisory Board) composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The Advisory Board members review the investment policy and management fee structure. TexPool is rated AAAM by Standard & Poor’s. As a requirement to maintain the rating, weekly portfolio information is submitted to both Standard & Poor’s and the Comptroller for review.

TexPool uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool is the same value as the value in TexPool shares.

Lone Star is a public funds investment pool established in accordance with the Interlocal Cooperation Act, Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 225, Texas Government Code. Lone Star is governed by trustees comprised of active participants in Lone Star. The board of trustees for Lone Star has the responsibility for adopting and monitoring compliance with the investment policy, of appointing investment officers, of overseeing the selection of an investment advisor, custodian, investment consultant, administrator and other service providers. Lone Star uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in Lone Star is the same as the value in Lone Star shares.

HOUSTON COMMUNITY COLLEGE SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 - DEPOSITS AND INVESTMENTS - CONTINUED

Fair Value Investments

HCC categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles (GAAP). The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs.

Bank of America, as custodian of HCC's securities, obtains market quotes on a daily basis from Interactive Data Corporation, and reports them to HCC via Bank of America's web site. Interactive Data Corporation evaluates U.S. Treasury securities by obtaining feeds from a number of live data sources including active market makers and inter-dealer brokers. Sources are reviewed on the basis of their historical accuracy for individual issues and maturity ranges. Evaluations are marked at 15:00 and 16:00 (ET).

As required by GASB Statement No. 72, *Fair Value Measurement and Application*, the following table presents the financial instruments carried on the statements of financial position by caption and by level of inputs within the valuation hierarchy as of August 31, 2019 and August 31, 2018:

<u>Description</u>	Assets at fair value as of August 31, 2019			
	Level 1	Level 2	Level 3	FY 2019
Fannie Mae ARM Pool	\$ -	\$ 37,925	\$ -	\$ 37,925
U.S. Government Securities - Treasuries	-	38,571,816	-	38,571,816
U.S. Government Securities - Agency	-	80,046,814	-	80,046,814
Total *	<u>\$ -</u>	<u>\$ 118,656,555</u>	<u>\$ -</u>	<u>\$ 118,656,555</u>

<u>Description</u>	Assets at fair value as of August 31, 2018			
	Level 1	Level 2	Level 3	FY 2019
Fannie Mae ARM Pool	\$ -	\$ 44,224	\$ -	\$ 44,224
U.S. Government Securities - Treasuries	-	40,897,321	-	40,897,321
U.S. Government Securities - Agency	-	90,678,194	-	90,678,194
Total *	<u>\$ -</u>	<u>\$ 131,619,739</u>	<u>\$ -</u>	<u>\$ 131,619,739</u>

\*This amount excludes investments in local government pools which are recorded at amortized cost. These excluded investments total \$106,303,820 and \$86,913,070 as of August 31, 2019 and August 31, 2018, respectively.

HOUSTON COMMUNITY COLLEGE SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 5 - DISAGGREGATION OF RECEIVABLES AND PAYABLES BALANCES

Receivables at August 31, 2019 and 2018, were as follows:

	2019	2018
Accounts Receivable	\$ 2,141,512	\$ 4,204,339
Grants Receivable		
Federal Grants	2,370,389	1,990,972
State Grants	247,050	320,964
Local Grants	91,305	53,563
Private Grants	150,086	51,254
Other Receivables	34,738,645	35,886,526
Student Receivables	1,441,909	885,834
Taxes Receivable	7,334,175	7,394,458
Total Receivables	48,515,071	50,787,910
Less Allowance for Doubtful Accounts		
Accounts Receivable	(154,866)	(154,866)
Student Receivables	(17,832,389)	(15,956,186)
Taxes Receivable	(4,297,323)	(4,231,896)
Total Allowance for Doubtful Accounts	(22,284,577)	(20,342,948)
Total Receivables, Net of Allowances	\$ 26,230,494	\$ 30,444,962

Payables at August 31, 2019 and 2018, were as follows:

	2019	2018
Vendor Payables	\$ 2,299,339	\$ 2,704,036
Salaries & Benefits Payable	2,646,864	3,989,252
Student Payables	3,623,112	3,447,195
Retainage Payable	2,370,302	2,703,961
Other Payables	1,693,280	1,791,675
Total Accounts Payables	\$ 12,632,897	\$ 14,636,120

HOUSTON COMMUNITY COLLEGE SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the year ended August 31, 2019 was as follows:

	Balance August 31, 2018	Increases	Decreases/ Transfers	Balance August 31, 2019
Not depreciated:				
Land	\$ 134,932,685	\$ 12,158,119	\$ -	\$ 147,090,804
Construction in Process	<u>47,421,069</u>	<u>19,355,146</u>	<u>43,056,439</u>	<u>23,719,776</u>
Subtotal	<u>182,353,754</u>	<u>31,513,265</u>	<u>43,056,439</u>	<u>170,810,580</u>
Other capital assets:				
Buildings	1,011,664,193	41,256,929	442,614	1,052,478,508
Other Real Estate Improvements	<u>128,281,619</u>	<u>2,559,726</u>	<u>-</u>	<u>130,841,345</u>
Subtotal	<u>1,139,945,812</u>	<u>43,816,655</u>	<u>442,614</u>	<u>1,183,319,853</u>
Library Books	18,793,805	286,898	109,013	18,971,690
Furniture, Machinery, Vehicles and Other Equipment	102,969,617	6,321,565	468,817	108,822,365
Telecommunications and Peripheral Equipment	<u>41,542,342</u>	<u>-</u>	<u>-</u>	<u>41,542,342</u>
Subtotal	<u>1,303,251,576</u>	<u>50,425,118</u>	<u>1,020,444</u>	<u>1,352,656,250</u>
Total Capital Assets	<u>1,485,605,330</u>	<u>81,938,383</u>	<u>44,076,883</u>	<u>1,523,466,830</u>
Accumulated depreciation:				
Buildings	127,281,307	18,209,281	-	145,490,588
Other Real Estate Improvements	<u>36,311,709</u>	<u>5,658,598</u>	<u>-</u>	<u>41,970,307</u>
Subtotal	163,593,016	23,867,879	-	187,460,895
Library Books	15,644,401	367,322	109,013	15,902,710
Furniture, Machinery, Vehicles and Other Equipment	71,569,171	7,223,228	3,483	78,788,916
Telecommunications and Peripheral Equipment	<u>34,927,356</u>	<u>2,076,979</u>	<u>-</u>	<u>37,004,335</u>
Total Accumulated Depreciation	<u>285,733,944</u>	<u>33,535,408</u>	<u>112,496</u>	<u>319,156,856</u>
Net Depreciable Capital Assets	<u>1,017,517,632</u>	<u>16,889,710</u>	<u>907,948</u>	<u>1,033,499,395</u>
Net Capital Assets	<u>\$ 1,199,871,386</u>	<u>\$ 48,402,975</u>	<u>\$ 43,964,387</u>	<u>\$ 1,204,309,974</u>

HOUSTON COMMUNITY COLLEGE SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 - CAPITAL ASSETS – CONTINUED

Capital asset activity for the year ended August 31, 2018 was as follows:

	Balance August 31, 2017	Increases	Decreases/ Transfers	Balance August 31, 2018
Not depreciated:				
Land	\$ 155,501,834	\$ 20,169,129	\$ 40,738,278	\$ 134,932,685
Construction in Progress	<u>233,891,653</u>	<u>33,983,072</u>	<u>220,453,656</u>	<u>47,421,069</u>
Subtotal	<u>389,393,487</u>	<u>54,152,201</u>	<u>261,191,934</u>	<u>182,353,754</u>
Other capital assets:				
Buildings	788,449,395	254,349,181	31,134,383	1,011,664,193
Other Real Estate Improvements	<u>126,314,256</u>	<u>1,980,074</u>	<u>12,711</u>	<u>128,281,619</u>
Subtotal	<u>914,763,651</u>	<u>256,329,255</u>	<u>31,147,094</u>	<u>1,139,945,812</u>
Library Books	18,537,360	321,163	64,718	18,793,805
Furniture, Machinery, Vehicles and Other Equipment	97,118,373	13,705,084	7,853,840	102,969,617
Telecommunications and Peripheral Equipment	<u>40,159,547</u>	<u>6,212,886</u>	<u>4,830,091</u>	<u>41,542,342</u>
Subtotal	<u>1,070,578,931</u>	<u>276,568,388</u>	<u>43,895,743</u>	<u>1,303,251,576</u>
Total Capital Assets	<u>1,459,972,418</u>	<u>330,720,589</u>	<u>305,087,677</u>	<u>1,485,605,330</u>
Accumulated depreciation:				
Buildings	115,932,336	11,528,129	179,158	127,281,307
Other Real Estate Improvements	<u>30,730,297</u>	<u>5,581,412</u>	<u>-</u>	<u>36,311,709</u>
Subtotal	146,662,633	17,109,541	179,158	163,593,016
Library Books	15,305,611	403,508	64,718	15,644,401
Furniture, Machinery, Vehicles and Other Equipment	67,136,938	7,011,268	2,579,035	71,569,171
Telecommunications and Peripheral Equipment	<u>33,426,806</u>	<u>1,507,465</u>	<u>6,915</u>	<u>34,927,356</u>
Total Accumulated Depreciation	<u>262,531,988</u>	<u>26,031,782</u>	<u>2,829,826</u>	<u>285,733,944</u>
Net Depreciable Capital Assets	<u>808,046,943</u>	<u>250,536,606</u>	<u>41,065,917</u>	<u>1,017,517,632</u>
Net Capital Assets	<u>\$ 1,197,440,430</u>	<u>\$ 304,688,807</u>	<u>\$ 302,257,851</u>	<u>\$ 1,199,871,386</u>

HOUSTON COMMUNITY COLLEGE SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 7 - NON-CURRENT LIABILITIES

Non-current liabilities activity for the years ended August 31, 2019 and 2018 was as follows:

	Balance as of September 1, 2018	Additions	Reductions	Balance as of August 31, 2019	Current Portion	Noncurrent Portion
Long-Term Notes Payable	\$ 101,637,261	\$ 1,896,775	\$ (7,506,522)	\$ 96,027,514	\$ 7,510,687	\$ 88,516,827
Tax-Exempt Note Purchase Agreement	-	12,804,100	-	12,804,100	-	12,804,100
	<u>101,637,261</u>	<u>14,700,875</u>	<u>(7,506,522)</u>	<u>108,831,614</u>	<u>7,510,687</u>	<u>101,320,927</u>
<b>Bonds:</b>						
Revenue Bonds	217,121,333	30,368,397	(56,109,336)	191,380,394	19,100,000	172,280,394
General Obligation Bonds	511,685,732	-	(14,600,592)	497,085,140	11,310,000	485,775,140
Maintenance Tax Bonds	33,873,578	-	(3,125,840)	30,747,737	2,400,000	28,347,737
Total Bonds	<u>762,680,643</u>	<u>30,368,397</u>	<u>(73,835,768)</u>	<u>719,213,271</u>	<u>32,810,000</u>	<u>686,403,271</u>
Deposits	-	-	-	-	-	-
Net Pension Liability	74,290,183	33,619,196	-	107,909,379	-	107,909,379
Net OPEB Liability	84,755,846	78,783,815	-	163,539,661	2,405,639	161,134,022
Total Non-current Liabilities	<u>\$ 1,023,363,933</u>	<u>\$ 157,472,283</u>	<u>\$ (81,342,291)</u>	<u>\$ 1,099,493,925</u>	<u>\$ 42,726,326</u>	<u>\$ 1,056,767,599</u>
	Balance as of September 1, 2017	Additions	Reductions	Balance as of August 31, 2018	Current Portion	Noncurrent Portion
Long-Term Notes Payable	\$ 109,188,863	\$ 2,033,187	\$ (9,584,789)	\$ 101,637,261	\$ 6,515,000	\$ 95,122,261
<b>Bonds:</b>						
Revenue Bonds	240,546,862	-	(23,425,529)	217,121,333	18,215,000	198,906,333
General Obligation Bonds	524,978,521	-	(13,292,789)	511,685,732	11,355,000	500,330,732
Maintenance Tax Bonds	34,717,506	-	(843,928)	33,873,578	2,285,000	31,588,578
Total Bonds	<u>800,242,889</u>	<u>-</u>	<u>(37,562,246)</u>	<u>762,680,643</u>	<u>31,855,000</u>	<u>730,825,643</u>
Deposits	440	-	(440)	-	-	-
Net Pension Liability	85,465,382	-	(11,175,199)	74,290,183	-	74,290,183
Net OPEB Liability	-	84,755,846	-	84,755,846	430,061	84,325,785
Total Non-current Liabilities	<u>\$ 994,897,574</u>	<u>\$ 86,789,033</u>	<u>\$ (58,322,674)</u>	<u>\$ 1,023,363,933</u>	<u>\$ 38,800,061</u>	<u>\$ 984,563,872</u>

HOUSTON COMMUNITY COLLEGE SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 - BONDS PAYABLE

*Student Fee Revenue Bonds:*

The System issued several Student Fee Revenue Bonds as Senior Lien Bonds or Junior Lien Bonds during the fiscal years 2006 through 2019 with interest rates ranging from 0.31% to 5.25% and maturities ranging from 2007 through 2031. Debt service requirements are payable solely from and secured by a first lien on certain pledged revenues which include general fees, out-of-district fees and any other revenues or receipts of the System which may, in the future, be pledged to the payment of the bonds. Certain outstanding bonds may be redeemed at their par value prior to their normal maturity dates in accordance with the terms of the related bond indenture. All authorized bonds have been issued. HCC has never defaulted on any bond or interest payment.

The bond resolutions, which authorize the issuance of revenue bonds, do not establish specific events of default. Under Texas law, there is no right to the acceleration of the maturity of the bonds upon the failure of the System to observe any covenant under the bond resolutions. If a default were to occur, the only practical remedy of a registered bond holder is to file a mandatory injunction to compel System officials to carry out their legally imposed duties with respect to the bonds.

*Limited Tax Bonds:*

The System issued \$109,490,000 in Limited Tax Refunding Bonds, Series 2011 ("Series 2011 Bonds") on October 12, 2011 with interest rates ranging from 2.25% to 5.00%. The Bonds were issued at a premium of \$16,767,575. Bond maturities range from February 15, 2014 through February 15, 2028. Bonds maturing on or after February 15, 2022 are subject to redemption prior to their scheduled maturities on February 15, 2021. The Series 2011 Bonds are direct obligations of the System and are payable from ad valorem taxes levied against all taxable property located within the system. The Series 2011 Bonds were used to partially refund \$112,195,000 of outstanding Limited Tax Bonds, Series 2003 ("Series 2003 Bonds") with interest rates ranging from 5.00% to 5.25%. The optional redemption date of the Series 2003 Bonds was February 15, 2013. Additionally, the Series 2011 Bonds were used to completely refund \$4,955,000 of outstanding Limited Tax Building and Refunding Bonds, Series 2005 ("Series 2005") with interest rates of 5.00%. The optional redemption date of the Series 2005 Bonds was November 14, 2011.

The System issued \$398,775,000 in Limited Tax General Obligation Bonds, Series 2013 ("Series 2013 Bonds") on March 19, 2013 with interest rates ranging from 3.00% to 5.00%. The Bonds were issued at a premium of \$55,392,571. Bond maturities range from February 15, 2015 through February 15, 2043. Bonds maturing on or after February 15, 2024, except those maturing in 2027, 2036 and 2037, are subject to redemption prior to their scheduled maturities on February 15, 2023. Bonds maturing on February 15, 2027 were called and redeemed on August 24, 2015. Bonds maturing on February 15, 2036 are subject to redemption on February 15, 2020. Bonds maturing on February 15, 2037 were subject to redemption on February 15, 2017. These bonds, totaling \$20,000,000, were defeased on September 21, 2016 with the issuance of the Limited Tax Refunding Bonds, Series 2016. See Note 9. The Series 2013 Bonds are direct obligations of the System and are payable from ad valorem taxes levied against all taxable property located within the System. The Series 2013 Bonds were used for the construction, maintenance and equipment of school buildings in the System and the purchase of necessary sites, and to pay the costs of issuance related to the Bonds.

The System issued \$19,455,000 in Limited Tax Refunding Bonds, Series 2016 ("Series 2016 Bonds") on September 21, 2016 with interest rates ranging from 3.00% to 4.00%. The Bonds were issued at a premium of \$1,192,336 and mature on February 15, 2037. Bonds maturing on February 15, 2037 are subject to redemption prior to their scheduled maturities on February 15, 2026. The Series 2016 Bonds are direct obligations of the System and are payable from ad valorem taxes levied against all taxable property located within the System. The Series 2016 Bonds were used to partially refund \$20,000,000 of outstanding Limited Tax General Obligation Bonds, Series 2013 ("Series 2013 Bonds") with an interest rate of 5.00%. The optional redemption date of the Series 2013 Bonds was February 14, 2017.

HOUSTON COMMUNITY COLLEGE SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 - BONDS PAYABLE - CONTINUED

The bond resolutions do not specifically provide any remedies to a registered owner if the System defaults on the payment of the principal of or interest on the bonds, nor does it provide for the appointment of a trustee to protect and enforce the interests of the registered owners upon the occurrence of such a default. If a registered owner of a bond does not receive payment of principal or interest when due, the registered owner may seek a writ of mandamus from a court of competent jurisdiction requiring the System to levy and collect taxes. A registered owner may also seek a judgment against the System. The mandamus remedy, however, may be impractical and difficult to enforce. There is no provision for the acceleration of maturity of principal of a bond in the event of a default. A registered owner of a bond could file suit against the System if a default occurred in the payment of principal of or interest on any such bonds; however, a suit for monetary damages could be vulnerable to the defense of sovereign immunity and any judgment could not be satisfied by execution against any property of HCC. The enforcement of a claim for the payment of a bond also would be subject to the applicable provisions of the Federal bankruptcy laws and to any other statutes affecting the rights of creditors of political subdivisions and may be limited by general principles of equity.

*Maintenance Tax Bonds:*

HCC issued \$28,870,000 in Maintenance Tax Refunding Bonds, Series 2016 on September 21, 2016 with an interest rate of 5.00%. The Bonds were issued at a premium of \$6,535,208 and mature on February 15, 2028. Bonds maturing on February 15, 2027 are subject to redemption prior to their scheduled maturities on February 15, 2026. The Series 2016 Bonds are direct obligations of the System and are payable from ad valorem taxes levied against all taxable property located within the System. The bonds were used to partially refund \$33,275,000 in Maintenance Tax Notes, Series 2008 with interest rates ranging from 4.00% to 5.00% with an optional redemption date of February 15, 2018.

The bond resolution, which authorizes the issuance of the Maintenance Tax Bonds, does not establish specific events of default. Under Texas law, there is no right to the acceleration of the maturity of the bonds upon the failure of the System to observe any covenant under the bond resolution. If a default were to occur, the only practical remedy of a registered bond holder is to file a mandatory injunction to compel the System to levy, assess and collect an annual ad valorem tax sufficient to pay principal and interest on the bonds as they becomes due. The enforcement of any such remedy may be difficult and time-consuming and a registered bond holder could be required to enforce such a remedy on a periodic basis.

Date Series Issued	Par Value	Maturity Date	Interest Rate	Outstanding Balances at August 31, 2019	Outstanding Balances at August 31, 2018
<b>Student Fee Revenue Bonds:</b>					
2006	\$ 72,815,000	04/15/2007 - 2028	4.000% - 5.000%	\$ -	\$ 11,720,000
2008	\$ 54,540,000	04/15/2009 - 2030	4.000% - 5.250%	-	24,600,000
2010	\$ 27,250,000	04/15/2012 - 2031	3.000% - 5.250%	19,160,000	20,340,000
2011	\$ 33,940,000	04/15/2012 - 2025	4.000% - 5.125%	13,540,000	15,440,000
2014A	\$ 9,210,000	04/15/2015 - 2026	2.000% - 4.000%	5,795,000	6,510,000
2014B	\$ 30,900,000	04/15/2015 - 2026	.31% - 4.070%	6,865,000	11,675,000
2015	\$ 68,865,000	04/15/2016 - 2031	2.000% - 5.000%	57,555,000	61,515,000
2016	\$ 50,345,000	04/15/2017 - 2031	3.000% - 5.000%	42,960,000	45,720,000
2019	\$ 26,870,000	04/15/2020 - 2030	5.000%	26,870,000	-
<b>Limited Tax Bonds:</b>					
2011	\$ 109,490,000	02/15/14 - 2028	2.250% - 5.000%	71,865,000	78,650,000
2013	\$ 398,775,000	02/15/15 - 2043	3.000% - 5.000%	357,420,000	361,990,000
2016	\$ 19,455,000	2/15/2037	3.000% - 4.000%	19,455,000	19,455,000
<b>Maintenance Tax Bonds:</b>					
2016	\$ 28,870,000	02/15/19 - 2028	5.000%	26,585,000	28,870,000
Total Principal Payable				648,070,000	686,485,000
Unamortized Premium and Discount, Net				71,143,271	76,195,642
Total Bonds Payable				<u>\$ 719,213,271</u>	<u>\$ 762,680,642</u>

HOUSTON COMMUNITY COLLEGE SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 - BONDS PAYABLE – CONTINUED

Debt service requirements to maturities as of August 31, 2019 are summarized as follows:

Year ending August 31,	Student Fee Revenue Bonds			Maintenance Tax Bonds			Limited Tax Bonds			Total Bonds		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2020	\$ 19,100,000	\$ 8,258,833	\$ 27,358,833	\$ 2,400,000	\$ 1,269,250	\$ 3,669,250	\$ 11,310,000	\$ 20,922,519	\$ 32,232,519	\$ 32,810,000	\$ 30,450,602	\$ 63,260,602
2021	20,735,000	7,340,574	28,075,574	2,520,000	1,146,250	3,666,250	12,685,000	20,343,544	33,028,544	35,940,000	28,830,368	64,770,368
2022	17,540,000	6,329,133	23,869,133	2,650,000	1,017,000	3,667,000	14,175,000	19,672,044	33,847,044	34,365,000	27,018,177	61,383,177
2023	14,460,000	5,489,409	19,949,409	2,790,000	881,000	3,671,000	12,730,000	19,006,919	31,736,919	29,980,000	25,377,328	55,357,328
2024	15,165,000	4,789,139	19,954,139	2,930,000	738,000	3,668,000	13,450,000	18,359,919	31,809,919	31,545,000	23,887,058	55,432,058
2025 - 2029	65,200,000	13,669,646	78,869,646	13,295,000	1,371,125	14,666,125	68,170,000	81,929,094	150,099,094	146,665,000	96,969,864	243,634,864
2030 - 2034	20,545,000	1,269,850	21,814,850	-	-	-	121,335,000	59,947,453	181,282,453	141,880,000	61,217,303	203,097,303
2035 - 2039	-	-	-	-	-	-	107,570,000	31,897,875	139,467,875	107,570,000	31,897,875	139,467,875
2040 - 2043	-	-	-	-	-	-	87,315,000	7,846,375	95,161,375	87,315,000	7,846,375	95,161,375
	<u>\$ 172,745,000</u>	<u>\$ 47,146,584</u>	<u>\$ 219,891,584</u>	<u>\$ 26,585,000</u>	<u>\$ 6,422,625</u>	<u>\$ 33,007,625</u>	<u>\$ 448,740,000</u>	<u>\$ 279,925,741</u>	<u>\$ 728,665,741</u>	<u>\$ 648,070,000</u>	<u>\$ 333,494,950</u>	<u>\$ 981,564,950</u>

Debt service requirements to maturities as of August 31, 2018 are summarized as follows:

Year ending August 31,	Student Fee Revenue Bonds			Maintenance Tax Bonds			Limited Tax Bonds			Total Bonds		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2019	\$ 18,215,000	\$ 9,320,464	\$ 27,535,464	\$ 2,285,000	\$ 1,386,375	\$ 3,671,375	\$ 11,355,000	\$ 21,468,244	\$ 32,823,244	\$ 31,855,000	\$ 32,175,083	\$ 64,030,083
2020	19,555,000	8,590,933	28,145,933	2,400,000	1,269,250	3,669,250	11,310,000	20,922,519	32,232,519	33,265,000	30,782,702	64,047,702
2021	21,215,000	7,645,361	28,860,361	2,520,000	1,146,250	3,666,250	12,685,000	20,343,544	33,028,544	36,420,000	29,135,155	65,555,155
2022	18,050,000	6,604,846	24,654,846	2,650,000	1,017,000	3,667,000	14,175,000	19,672,044	33,847,044	34,875,000	27,293,890	62,168,890
2023	15,000,000	5,734,359	20,734,359	2,790,000	881,000	3,671,000	12,730,000	19,006,919	31,736,919	30,520,000	25,622,278	56,142,278
2024 - 2028	70,855,000	17,682,960	88,537,960	16,225,000	2,109,125	18,334,125	65,290,000	85,265,594	150,555,594	152,370,000	105,057,679	257,427,679
2029 - 2033	34,630,000	2,958,725	37,588,725	-	-	-	110,455,000	65,379,422	175,834,422	145,085,000	68,338,147	213,423,147
2034 - 2038	-	-	-	-	-	-	113,095,000	37,085,450	150,180,450	113,095,000	37,085,450	150,180,450
2039 - 2043	-	-	-	-	-	-	109,000,000	12,250,250	121,250,250	109,000,000	12,250,250	121,250,250
	<u>\$ 197,520,000</u>	<u>\$ 58,537,649</u>	<u>\$ 256,057,649</u>	<u>\$ 28,870,000</u>	<u>\$ 7,809,000</u>	<u>\$ 36,679,000</u>	<u>\$ 460,095,000</u>	<u>\$ 301,393,985</u>	<u>\$ 761,488,985</u>	<u>\$ 686,485,000</u>	<u>\$ 367,740,633</u>	<u>\$ 1,054,225,633</u>

HOUSTON COMMUNITY COLLEGE SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS

**NOTE 9 - DEFEASANCE OF LONG-TERM DEBT**

The System issued \$26,870,000 in Combined Fee Revenue Refunding Bonds, Series 2019 on February 26, 2019. The Bonds were used to: (1) refund \$11,720,000 in Junior Lien Student Fee Revenue and Refunding Bonds, Series 2006 with interest rates of 5.00% with an optional redemption date of April 15, 2016; and (2) partially refund \$22,890,000 in Senior Lien Revenue Bonds, Series 2008 with interest rates ranging from 4.50% to 5.25% with an optional redemption date of April 15, 2018, which the System exercised.

Proceeds of \$30,368,397 of the Combined Fee Revenue Refunding Bonds, Series 2019 were placed in an irrevocable trust with an escrow agent and were used to redeem the Junior Lien Student Fee Revenue and Refunding Bonds, Series 2006 on March 29, 2019 and the Senior Lien Fee Revenue Bonds, Series 2008 on March 29, 2019. The liabilities for these refunded bonds and the securities held by the escrow agent have been excluded from the Statement of Net Position.

The advance refunding had the following results:

- \$5,227,176.55 in future cash flow savings resulting from a decrease in the aggregate debt service payments over the next eleven years.
- Economic gain of \$4,200,673, which is the difference between the present values of the old and new debt service payments.
- Advance funding valuation of \$1,141,219 was created, which is the difference between the reacquisition price of \$35,328,196 and the carrying amount of the refunded bonds of \$36,469,415. The valuation is deferred and amortized as a component of interest expense over the term of the defeased bonds.

**NOTE 10 - DEFEASED BONDS OUTSTANDING**

There were no defeased bonds outstanding as of August 31, 2019 and August 31, 2018.

**NOTE 11 - NOTES PAYABLE**

Notes Payables at August 31, 2019 and 2018 were as follows:

Description	As of August 31, 2019			As of August 31, 2018		
	Principal Outstanding	Unamortized Premium	Total	Principal Outstanding	Unamortized Premium	Total
Maintenance Tax Notes, Series 2006	\$ 3,650,000	\$ 20,842	\$ 3,670,842	\$ 4,290,000	\$ 23,484	\$ 4,313,484
Maintenance Tax Notes, Series 2009	6,530,000	214,661	6,744,661	7,460,000	262,185	7,722,185
Maintenance Tax Notes, Series 2010	31,075,000	2,209,326	33,284,326	33,430,000	2,544,414	35,974,414
Maintenance Tax Notes, Series 2011	29,600,000	1,143,241	30,743,241	31,340,000	1,251,109	32,591,109
Maintenance Tax Notes, Series 2011A	14,300,000	1,295,123	15,595,123	15,150,000	1,457,572	16,607,572
LoanSTAR Revolving Loan Program	5,989,321	-	5,989,321	4,428,497	-	4,428,497
<b>Total</b>	<b>\$ 91,144,321</b>	<b>\$ 4,883,192</b>	<b>\$ 96,027,514</b>	<b>\$ 96,098,497</b>	<b>\$ 5,538,763</b>	<b>\$ 101,637,260</b>

**2011 Issuance**

The System issued \$19,590,000 in Maintenance Tax Notes, Series 2011A Notes on October 12, 2011 with interest rates ranging from 3.00% to 5.25%. The Notes were issued at a premium of \$2,467,247. Note maturities range from February 15, 2013 through February 15, 2031. Notes maturing on or after February 15, 2022 are subject to redemption prior to their scheduled maturities on February 15, 2021. The Notes are direct obligations of the System and are payable from ad valorem taxes levied against all taxable property located within the System. The Notes were used for the renovation of and purchase of equipment for existing facilities and replacement of information technology systems, and to pay the costs of issuance related to the Notes.

HOUSTON COMMUNITY COLLEGE SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 11 - NOTES PAYABLE - CONTINUED

The System issued \$41,560,000 in Maintenance Tax Notes, Series 2011 Notes on March 10, 2011 with interest rates ranging from 3.00% to 5.25%. The Notes were issued at a premium of \$1,800,441. Note maturities range from February 15, 2012 through February 15, 2031. Notes maturing on or after February 15, 2022 are subject to redemption prior to their scheduled maturities on February 15, 2021. The Notes are direct obligations of the System and are payable from ad valorem taxes levied against all taxable property located within the System. The Notes were used for the renovation of and purchase of equipment for existing facilities and replacement of information technology systems, and to pay the costs of issuance related to the Notes.

2010 Issuance

The System issued \$47,645,000, in Maintenance Tax Notes, Series 2010 (“Notes”) on July 29, 2010 with interest rates ranging from 2.00% to 5.00%. The Notes were issued at a premium of \$4,925,575. Note maturities range from February 15, 2012 through February 15, 2029. Notes maturing on or after February 15, 2021 are subject to redemption prior to their scheduled maturities on February 15, 2020. The Notes are direct obligations of the System and are payable from ad valorem taxes levied against all taxable property located within the System. The Notes were used for the renovation of and purchase of equipment for existing facilities, and to pay the costs of issuance related to the Notes.

2009 Issuance

The System issued \$13,830,000, in Maintenance Tax Notes, Series 2009 (“Notes”) on September 1, 2009 with interest rates ranging from 2.50% to 5.00%. The Notes were issued at a premium of \$451,444. Note maturities range from February 15, 2011 through February 15, 2025. Notes maturing on or after February 15, 2020 are subject to redemption prior to their scheduled maturities on February 15, 2019. The Notes are direct obligations of the System and are payable from ad valorem taxes levied against all taxable property located within the System. The Notes were used to pay for rehabilitation and energy conservation renovations to existing facilities, and to pay the costs of issuance related to the Notes.

2006 Issuance

The System issued \$12,000,000 in Maintenance Tax Notes, Series 2006 (“Notes”) on February 1, 2006 with interest rates ranging from 3.00% to 4.50%. The Notes were issued at a discount of \$88,756. Note maturities range from February 15, 2007 through February 15, 2026. Notes maturing on or after February 15, 2007 are subject to redemption prior to their scheduled maturities on February 15, 2016. Notes totaling \$1,700,000 were called and redeemed on September 30, 2016. The Notes are direct obligations of the System and are payable from ad valorem taxes levied against all taxable property located within the System. The Notes were used for the construction of a central utility plant on the Central campus, and to pay the costs of issuance related to the Notes.

LoanSTAR Program

The System entered into a revolving loan agreement on March 22, 2016 for \$5,229,822 with the Comptroller through its State Energy Conservation Office. The purpose of the loan was to finance energy efficiency projects. Borrowings under the Program totaled \$4,263,993. All energy projects have been completed and a final repayment schedule has been determined by the State. The loan will be repaid over 9.25 years with an annual interest rate of 1%. The loan balances outstanding were \$3,988,634 and \$4,263,993 at August 31, 2019 and August 31, 2018, respectively.

The System entered into a second revolving loan agreement on December 7, 2016 for \$7,056,096 with the Comptroller through its State Energy Conservation Office. The purpose of the loan was to finance energy efficiency projects. Borrowings under the Program totaled \$1,987,134. All energy projects have been completed and a final repayment schedule has been determined by the State. The loan will be repaid over 8.25 years with an annual interest rate of 1.00%. The loan balance outstanding was \$2,000,687 and \$164,504, respectively, at August 31, 2019 and August 31, 2018.

HOUSTON COMMUNITY COLLEGE SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 11 - NOTES PAYABLE - CONTINUED

In the event of default by the System to make a loan payment under the LoanSTAR Loan Agreements, the State shall notify the System of the default and the System shall have a reasonable opportunity, not to exceed twenty (20) days, to cure the default. If the System fails to cure the default, the State shall be released from all of its obligations under the Agreements and shall have the right to declare the loans in default and all amounts loaned to the System under the Agreements and earned interest shall become immediately due. The System waives all demands for payment, presentations for payment, and notices of intention to accelerate maturity, notices of acceleration of maturity, protest, and notices of protest, to the extent permitted by law. Upon receipt of notice of default from the State, the System shall cancel or otherwise terminate any contract, agreement or order relating to the project and cease to incur any cost or expense relating to the project. If the System fails to repay the loan within ninety (90) days of State's declaration of default under the Agreements, the State may notify the Office of the Governor, Legislative Budget Board and the Texas Higher Education Coordinating Board of the System's breach of the Agreements and the amount owing by the System under the Agreements and recommend to the Legislative Budget Board that the System's appropriation of funds for the next succeeding biennium be reduced by an amount equal to the total amount due under the Agreements.

Tax-Exempt Note Purchase Agreement

On December 13, 2018 the System entered into a three year Tax-Exempt Variable Rate Note Purchase Agreement with a commercial bank for the purpose of development of the West Houston Expansion. The project will entail the purchase of 24 acres of land and construction of a 140,000 square foot building at a total estimated cost of \$54,000,000. The maximum borrowing under the Agreement is \$55,000,000 at an approximate annual interest rate of 2.40%, based upon a factor of LIBOR. The outstanding balance of the loan was \$12,804,100 at August 31, 2019. Upon completion of the building, the System intends to issue permanent revenue bonds and retire the outstanding notes. Interest only will be paid semi-annually on the notes during the term of the interim financing agreement.

The following constitute events of default: (i) the System fails to pay when due any fee or expense payable under the Agreement; (ii) any representation, warranty, certification, or statement made by the System in the Board Resolution, the Agreement or in any certificate, financial statement, or other document delivered pursuant to the Board Resolution or the agreement shall prove to have been incorrect in any material respect when made; (iii) a final unappealable judgment or order for the payment of money in excess of \$5,000,000 payable from the pledged revenues shall be rendered against the System and such judgment or order shall continue unsatisfied and unstayed for a period of sixty (60) days; (iv) default by the System in the payment of any outstanding bonds when due or within any applicable grace period; (v) the occurrence of any event under any ordinance, resolution, agreement or instrument giving rise to or entered in connection with any Senior Lien Bonds or Junior Lien Bonds, which results in or would entitle the obligee thereof or a trustee on behalf of such obligee to pursue any remedies against the System, including the right to declare the acceleration of any maturity thereof; (vi) any material provision of the Agreement shall at any time for any reason cease to be valid and binding on the System as a result of federal or state legislative or administrative action, or shall be declared in a final unappealable judgment by any court having jurisdiction over the System to be null and void, invalid, or unenforceable, or the validity or enforceability thereof shall be contested by the System; (vii) the powers of the System shall be limited in any way or the Resolution shall be modified or amended in any way which prevents the System from fixing, charging or collecting the pledged revenues in an amount sufficient to pay outstanding bonds as they become due; or (viii) default shall be made by the System in the performance or observance of any other of the covenants, agreements or conditions on its part in the Resolution, the Notes or the Agreement, and such default shall continue for a period of 30 days after written notice thereof to the System by the commercial bank. Upon the occurrence of an event of default, the commercial bank may cease purchasing Notes under the Agreement and may terminate the Agreement.

HOUSTON COMMUNITY COLLEGE SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 11 - NOTES PAYABLE - CONTINUED

In addition, the commercial bank may take any action permitted by law or equity, including without limitation actions to petition a court of competent jurisdiction to issue a mandamus order to the System and compel specific performance of the covenants and agreements of the System contained in the Agreement or the Resolution.

Maturities of notes payable at August 31, 2019 were as follows:

<u>Year ending August 31</u>	<u>Central Utility Plant</u>	<u>Capital Improvements</u>	<u>Total</u>
2020	813,744	10,759,768	11,573,512
2021	809,738	10,773,282	11,583,020
2022	814,000	10,770,171	11,584,171
2023	811,406	10,775,980	11,587,386
2024	812,391	10,782,266	11,594,657
2025 - 2029	-	47,788,520	47,788,520
2030 - 2031	-	9,754,406	9,754,406
Total Payments	4,061,279	111,404,393	115,465,672
Less Amounts Representing Interest	(411,278)	(23,910,072)	(24,321,350)
Plus Unamortized Premium	20,841	4,862,351	4,883,191
Total Notes Payable	<u>\$ 3,670,842</u>	<u>\$ 92,356,672</u>	<u>\$ 96,027,514</u>

Maturities of notes payable at August 31, 2018 were as follows:

<u>Year ending August 31</u>	<u>Central Utility Plant</u>	<u>Capital Improvements</u>	<u>Total</u>
2019	\$ 887,681	\$ 10,085,731	\$ 10,973,412
2020	890,244	10,074,081	10,964,325
2021	886,238	10,080,713	10,966,951
2022	890,500	10,070,650	10,961,150
2023	887,906	10,069,438	10,957,344
2024 - 2028	888,891	50,995,613	51,884,504
2029 - 2031	-	18,553,075	18,553,075
Total Payments	5,331,460	119,929,301	125,260,761
Less Amounts Representing Interest	(1,041,459)	(28,120,803)	(29,162,263)
Plus Unamortized Premium	23,484	5,515,279	5,538,763
Total Notes Payable	<u>\$ 4,313,484</u>	<u>\$ 97,323,776</u>	<u>\$ 101,637,261</u>

HOUSTON COMMUNITY COLLEGE SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS

**NOTE 12 - OPERATING LEASES**

The System leases certain educational facilities, offices and equipment. Future minimum rental payments under non-cancelable operating leases having remaining terms as of August 31, 2019 for the next fiscal year are as follows:

<u>Year ending August 31</u>	<u>Amount</u>
2020	\$ 20,512

Rent expense totaled approximately \$1.2 million and \$1.3 million for each of the fiscal years ended August 31, 2019 and 2018, respectively.

**NOTE 13 - LEASED FACILITIES**

The System leases office space to other entities under operating leases. Minimum lease payments due to the System under these operating leases as of August 31, 2019 are as follows:

<u>Year Ending August 31,</u>	<u>Amount</u>
2020	\$ 5,351,978
2021	1,001,855
2022	1,027,683
2023	857,624
2024	741,320
Thereafter	2,796,568
Total	<u>\$ 11,777,029</u>

The System received approximately \$7.4 million and \$6.4 million in rental income for the fiscal years ended August 31, 2019 and 2018.

**NOTE 14 - RETIREMENT PLANS**

The State of Texas has joint contributory retirement plans for almost all its employees. One of the primary plans in which the system participates is administered by the TRS.

**Teacher Retirement System of Texas**

**Plan Description.** HCC contributes to the TRS, a cost-sharing multiple employer defined benefit pension plan that has a special funding situation. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. TRS's Board of Trustees does not have the authority to establish or amend benefit terms.

All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard work load and who are not exempted from membership under Texas Government Code, Title 8, Section 822.002 are covered by TRS.

**Pension Plan Fiduciary Net Position.** Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained from TRS website at <http://www.trs.state.tx.us/about/documents/cafr.pdf#>; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

HOUSTON COMMUNITY COLLEGE SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS

**NOTE 14 - RETIREMENT PLANS - CONTINUED**

**Benefits Provided.** TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member’s age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member’s age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes; including automatic cost of living adjustments (COLA). Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan description.

**Contributions.** Contribution requirements are not actuarially determined but rather are established and amended by Article 16, section 67 of the Texas Constitution. The state funding policy is as follows: (1) The state constitution requires the Texas Legislature to establish a member contribution rate of not less than 6% of the member’s annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of the systems during the fiscal year. (2) Texas Government Code section 821.006 prohibits benefits improvements or contribution reductions if, as a result of a particular action, the time required to amortize TRS’ unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if that amortization period already exceeds 31 years, the period would be increased by such action.

Employee contribution rates are set by state statute in Texas Government Code 825.402. Senate Bill 1458 of the 83<sup>rd</sup> Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. The 85<sup>th</sup> Texas Legislature, General Appropriations Act (GAA) affirmed that the employer contribution rates for fiscal years 2018 and 2019 would remain the same.

Contribution Rates

	<u>2019</u>	<u>2018</u>
Member	7.7%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
FY 2018 District or Member Contributions		\$6,604,349
FY 2018 State On-behalf Contributions		\$3,415,162
FY 2018 System or College Contributions		\$7,588,046

HCC contributions to the TRS pension plan in 2019 were \$3,869,654 as reported in the Schedule of System Contributions in the Required Supplementary Information section of these financial statements. Estimated State on-behalf contributions for 2019 were \$3,029,000.

As the non-employer contributing entity for public education and junior colleges, the State contributes to the retirement system an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during that fiscal year reduced by the amounts described below which are paid by the employers.

Public junior college or junior college districts are required to pay the employer contribution rate in the following instances:

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member’s first 90 days of employment.
- When any part or all of an employee’s salary is paid by federal funding sources, a privately sponsored source, from non-educational and general, or local funds.

HOUSTON COMMUNITY COLLEGE SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 14 - RETIREMENT PLANS - CONTINUED

- When the employing district is a public junior college or junior college district, the employer shall contribute to the retirement system an amount equal to 50% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.
- In addition to the employer contributions listed above, when employing a retiree of the Teacher Retirement System the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.

**Actuarial Assumption.** The total pension liability in the August 31, 2017 actuarial valuation rolled forward to August 31, 2018 was determined using the following actuarial assumptions:

Valuation Date	August 31, 2017, rolled forward to August 31, 2018
Actuarial Cost Method	Individual Entry Age Normal
Amortization Method	Level Percent of Payroll, Floating
Amortization Period	30 Years
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Single Discount Rate	6.907%
Long-term Expected Investment Rate of Return	7.25%
Municipal Bond Rate*	3.69*
Inflation	2.30%
Payroll Growth Rate	3.00%
Salary increases including inflation	3.05% to 9.05%
Benefit changes during the year	None
Ad hoc post-employment benefit changes	None

\* Source for the rate is the Fixed Income Market Data/Yield Curve/Data Municipal Bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index."

The actuarial methods and assumptions were selected by the TRS Board of Trustees based upon analysis and recommendations by the TRS system's actuary. The TRS Board of Trustees has sole authority to determine the actuarial assumptions used for the plan. The actuarial methods and assumptions were primarily based on a study of actual experience for the three-year period ending August 31, 2017 and were adopted in July 2018. There were no changes to the actuarial assumptions or other inputs that affected the measurement of the total pension liability since the prior measurement period. Assumptions, methods, and plan changes were updated from the prior year's report. The net pension liability increased significantly since the prior measurement date due to a change in the following actuarial assumptions:

- The total pension liability as of August 31, 2018 was developed using a roll-forward method from the August 31, 2017 valuation.
- Demographic assumptions including postretirement mortality, termination rates, and rates of retirement were updated based on the experience study performed for TRS for the period ending August 31, 2017.
- Economic assumptions including rates of salary increase for individual participants was updated based on the same experience study.
- The discount rate changed from 8 percent as of August 31, 2017 to 6.907 percent as of August 31, 2018.

HOUSTON COMMUNITY COLLEGE SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 14 - RETIREMENT PLANS - CONTINUED

- The long-term assumed rate of return changed from 8 percent to 7.25 percent.
- The change in the long-term assumed rate of return combined with the change in the single discount rate was the primary reason for the increase in the net pension liability. There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

**Discount Rate.** The single discount rate used to measure the total pension liability was 6.907%. The single discount rate was based on the expected rate of return on pension plan investments of 7.25 percent and a municipal bond rate of 3.69 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was sufficient to finance the benefit payments until the year 2069. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2069, and the municipal bond rate was applied to all benefit payments after that date. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2018 are summarized below:

Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return	Expected Contribution to Long-Term Portfolio Returns*
<b>Global Equity</b>			
US	18%	5.7%	1.0%
Non-U.S. Developed	13%	6.9%	0.9%
Emerging Markets	9%	9.0%	0.8%
Directional Hedge Funds	4%	3.5%	0.1%
Private Equity	13%	10%	1.3%
<b>Stable Value</b>			
U.S. Treasuries	11%	1.1%	0.1%
Absolute Return	0%	0.0%	0.0%
Stable Value Hedge Funds	4%	3.1%	0.1%
Cash	1%	-0.3%	0.0%
<b>Real Return</b>			
Gobal Inflation Linked Bonds	3%	0.7%	0.0%
Real Assets	14%	5.2%	0.7%
Energy and Natural Resources	5%	7.5%	0.4%
Commodities	0%	0.0%	0.0%
<b>Risk Parity</b>			
Risk Parity	5%	3.7%	0.2%
Inflation Expectation			2.3%
Volatility Drag			-0.8%
Total	100%		7.3%

\*The Expected Contribution to Returns incorporates the volatility drag resulting from the conversion between Arithmetic and Geometric means returns.

Source: Teacher Retirement System of Texas 2018 Comprehensive Annual Financial Report

HOUSTON COMMUNITY COLLEGE SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 14 - RETIREMENT PLANS - CONTINUED

**Discount Rate Sensitivity Analysis.** The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (6.907%) in measuring the 2018 Net Pension Liability.

	1% Decrease in Discount Rate (5.907%)	Discount Rate (6.907%)	1% Increase in Discount Rate (7.907%)
Houston Community College System proportionate share of the net pension liability:	\$ 162,861,129	\$ 107,909,379	\$ 63,422,679

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.** At August 31, 2019 HCC reported a liability of \$107,909,379 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to HCC. The amount recognized by HCC as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with HCC were as follows:

Houston Community College System proportionate share of the collective net pension liability	\$ 107,909,379
State's proportionate share that is associated with Houston Community College System	<u>55,835,569</u>
Total	<u><u>\$ 163,744,948</u></u>

The net pension liability was measured as of August 31, 2017 and rolled forward to August 31, 2018 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of August 31, 2017 rolled forward to August 31, 2018. The employer's proportion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2017 through August 31, 2018.

At the measurement date of August 31, 2018, the employer's proportion of the collective net pension liability was 0.1960476398%, which was a decrease of (0.0362935099) % from its proportion measured as of August 31, 2017.

**Changes Since the Prior Actuarial Valuation.** The following were changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period.

- The total pension liability as of August 31, 2018 was developed using a roll-forward method from the August 31, 2017 valuation.
- Demographic assumptions including post-retirement mortality, termination rates, and rates of retirement were updated based on the experience study performed for TRS for the period ending August 31, 2017.
- Economic assumptions including rates of salary increase for individual participants was updated based on the same experience study.
- The discount rate changed from 8.0 percent as of August 31, 2017 to 6.907 percent as of August 31, 2018.
- The long-term assumed rate of return changed from 8.0 percent to 7.25 percent.
- The change in the long-term assumed rate of return combined with the change in the single discount rate was the primary reason for the increase in the net pension liability.

There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

HOUSTON COMMUNITY COLLEGE SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 14 - RETIREMENT PLANS - CONTINUED

For the year ended August 31, 2019, the System recognized pension expense of \$5,526,233 and revenue of \$5,526,233 for support provided by the State.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 672,619	\$ 2,647,670
Changes in actuarial assumptions	38,906,529	1,215,830
Net difference between projected and actual investment earnings		2,047,504
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	1,705,439	14,324,385
Contributions paid to TRS subsequent to the measurement date	3,869,654	-
Total	\$ 45,154,241	\$ 20,235,389

The \$3,869,654 reported as deferred outflows of resources resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended August 31, 2020.

The net amounts of the employer's balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended August 31:	Pension Expense Amount
2020	\$ 5,862,672
2021	1,553,938
2022	722,624
2023	5,115,398
2024	4,778,895
Thereafter	3,015,671
Total	\$ 21,049,198

HOUSTON COMMUNITY COLLEGE SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 14 - RETIREMENT PLANS - CONTINUED

Optional Retirement Plan

**Plan Description.** The state has also established an optional retirement program for institutions of higher education. Participation in the Optional Retirement Program is in lieu of participation in the Teacher Retirement System. The optional retirement program provides for the purchase of annuity contracts and operates under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C.

**Funding Policy.** Contribution requirements are not actuarially determined but are established and amended by the State Legislature. The percentages of participant salaries currently contributed by the state and each participant are 6.60% and 6.65%, respectively. Benefits fully vest after one year plus one day of employment. Because these are individual annuity contracts, the state has no additional or unfunded liability for this program.

Retirement Expense

The retirement expense to the State for the System was \$6,746,764 and \$2,321,572 for the fiscal years ended August 31, 2019 and 2018, respectively. This amount represents the portion of expended appropriations made by the State Legislature on behalf of the System.

The total payroll for all System employees was \$212,344,483 and \$214,017,689 for fiscal years 2019 and 2018, respectively. The total payroll for HCC employees covered by the Teacher Retirement System was \$144,837,608 and \$148,417,506 and the total payroll for employees covered by the Optional Retirement Program was \$37,702,900 and \$39,456,647 for fiscal years 2019 and 2018, respectively.

NOTE 15 - DEFERRED COMPENSATION PROGRAM

System employees may elect to defer a portion of their earnings for income tax and investment purposes pursuant to authority granted in Government Code 609.001. Both a 403(b) plan and a 457 plan are available. These plans are funded by employee contributions such that the System is not liable for the diminution in value or loss of all or part of the participating employees' deferred amounts or investment income due to market conditions or the failure, insolvency or bankruptcy of a qualified vendor. The total number of HCC employees participating in these plans at August 31, 2019 and 2018 were 638 and 637, respectively.

During fiscal years ended August 31, 2019 and August 31, 2018, HCC employee contributions amounting to \$4,483,086 and \$4,367,638, respectively, were invested in the plan.

NOTE 16 - COMPENSATED ABSENCES

Full-time employees earn sick leave at the rate of eight hours for every month of service in the System up to a maximum of 680 hours. Each pay period, four sick leave hours and two catastrophic leave hours accrue. Leave hours are not available for use until accrued. After the maximum 680 hours sick leave accrual is reached, the full-time employee will accrue catastrophic leave of six hours per month up to a maximum of 1,000 hours. Earned sick or catastrophic leave unused by employees is not compensated by the System under any circumstances.

Employees can earn up to 160 vacation hours. Up to 80 earned but unused vacation hours may be carried forward by employees from one fiscal year to the next, but must be utilized before the end of August of the following year or be lost. An employee is compensated for any earned but unused vacation hours upon termination of employment with the System. Accrued compensable absences of \$3,713,263 and \$3,796,103 for earned but unused vacation hours in accordance with HCC's vacation earning and carry-forward policy has been included in the financial statements for the years ended August 31, 2019 and 2018, respectively.

HOUSTON COMMUNITY COLLEGE SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 17 - FUNDS HELD IN TRUST BY OTHERS

HCC did not have any funds held in trust by others during fiscal year 2019.

NOTE 18 - CONSTRUCTION COMMITMENTS

The System has entered into construction commitments for various projects, including the renovation and repair of facilities and the construction of buildings. At August 31, 2019 and 2018, the outstanding commitments under construction contracts for facilities and other construction projects were \$13,416,383 and \$28,354,457, respectively. Proceeds from the sales of various bonds and notes are being used to fund the purchase and construction of new facilities.

NOTE 19 - CONTINGENCIES

From time to time, the System is a defendant in legal proceedings related to its operations as a college. In the best judgment of the System's management, after consultation with its legal counsel, the outcome of any present legal proceedings will not have a materially adverse effect on the accompanying financial statements.

The System has received Federal, State, and other financial assistance in the form of contracts and grants that are subject to review and audit by the grantor agencies. Such audits could result in requests for reimbursement by the grantor agency for expenditures disallowed under terms and conditions specified in the contract and grant agreements. In the opinion of the System's management, such disallowances, if any, would not be significant in relation to HCC's financial statements.

HOUSTON COMMUNITY COLLEGE SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 20 - HEALTH CARE AND LIFE INSURANCE BENEFITS

The State provides certain health care and life insurance benefits for active employees. These and similar benefits are provided through a self-funded State plan which is administered by an insurance company. The premiums are based on benefits paid during the previous year. The table below depicts the cost of providing health care benefits to the System's retired and active employees, and the amount appropriated to the System from the State. Payments of these benefits by the State were recognized as restricted state appropriations with an equal amount recognized as restricted benefits expenses. These payments do not flow through the System's cash accounts.

State/Employer Contribution for Health Care Insurance (includes  
basic life insurance rate)

HealthSelect of Texas Plan	2019 State/Employer Contribution
Member Only	\$ 624.82
Member & Spouse	1,340.82
Member & Child (ren)	1,104.22
Member & Family	1,820.22

HealthSelect of Texas Plan	2018 State/Employer Contribution
Member Only	\$ 621.90
Member & Spouse	1,334.54
Member & Child (ren)	1,099.06
Member & Family	1,811.70

Cost of Providing Health Care Insurance	2019	2018
Number of Retirees	705	678
Cost of Health Benefits for Retirees	\$ 5,000,484	\$ 4,829,238
Number of Active Full Time Employees	2,688	2,723
Cost of Health Benefits for Active Full Time Employees	\$ 21,910,561	\$ 22,016,515
State Appropriation for Health Insurance	\$ 11,240,496	\$ 10,750,355
System's Expense for Health Insurance	\$ 15,670,526	\$ 16,095,398

HOUSTON COMMUNITY COLLEGE SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS

**NOTE 21 - POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS**

**Plan Description.** The System participates in a cost-sharing, multiple-employer, other postemployment benefit (OPEB) plan with a special funding situation. The Texas Employees Group Benefits Program (GBP) is administered by the ERS. The GBP provides certain postemployment health care, life and dental insurance benefits to retired employees of participating universities, community colleges, and State agencies in accordance with Chapter 1551, Texas Insurance Code. Almost all employees may become eligible for those benefits if they reach normal retirement age while working for the State and retire with at least 10 years of service to eligible entities. Surviving spouses and dependents of these retirees are also covered. Benefit and contribution provisions of the GBP are authorized by State law and may be amended by the Texas Legislature.

**OPEB Plan Fiduciary Net Position.** Detailed information about the GBP’s fiduciary net position is available in the separately issued ERS Comprehensive Annual Financial Report (CAFR) that includes financial statements, notes to the financial statements and required supplementary information. That report may be obtained on the Internet at <https://ers.texas.gov/AboutERS/Reports-and-Studies/Reports-on-Overall-ERS-Operations-and-Financial-Management>; or by writing to ERS at: 200 East 18th Street, Austin, TX 78701; or by calling (877) 275-4377. The fiduciary net position of the plan has been determined using the same basis used by the OPEB plan.

**Benefits Provided.** Retiree health benefits offered through the GBP are available to most State retirees and their eligible dependents. Participants need at least ten years of service credit with an agency or institution that participates in the GBP to be eligible for GBP retiree insurance. The GBP provides self-funded group health (medical and prescription drug) benefits for eligible retirees under HealthSelect. The GBP also provides a fully insured medical benefit option for Medicare-primary participants under the HealthSelect Medicare Advantage Plan and life insurance benefits to eligible retirees via a minimum premium funding arrangement. The authority under which the obligations of the plan members and employers are established and/or may be amended is Chapter 1551, Texas Insurance Code.

**Contributions.** Section 1551.055 of Chapter 1551, Texas Insurance Code, provides that contribution requirements of the plan members and the participating employers are established and may be amended by the ERS Board of Trustees. The employer and member contribution rates are determined annually by the ERS Board of Trustees based on the recommendations of ERS staff and its consulting actuary. The contribution rates are determined based on (i) the benefit and administrative costs expected to be incurred, (ii) the funds appropriated and (iii) the funding policy established by the Texas Legislature in connection with benefits provided through the GBP. The Trustees revise benefits when necessary to match expected benefit and administrative costs with the revenue expected to be generated by the appropriated funds.

The following table summarizes the maximum monthly employer contribution toward eligible retirees’ health and basic life premium. Retirees pay any premium over and above the employer contribution. The employer does not contribute toward dental or optional life insurance. Surviving spouses and their dependents do not receive any employer contribution. As the non-employer contributing entity (NECE), the State pays part of the premiums for the junior and community colleges.

Maximum Monthly Employer Contribution  
Retiree Health and Basic Life Premium  
Fiscal Years 2018 and 2017

	2018	2017
Retiree only	\$ 621.90	\$ 617.30
Retiree and spouse	1,334.54	970.98
Retiree and children	1,099.06	854.10
Retiree and family	1,811.70	1,207.78

Source: ERS FY 2018 and 2017 Comprehensive Annual Financial Report

HOUSTON COMMUNITY COLLEGE SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 21 - POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS - CONTINUED

Contributions of premiums to the GBP plan for the current and prior fiscal year by source is summarized in the following table:

Premium Contributions by Source Group Benefits Program Plan For Years Ended August 31, 2018	
FY 2019 System or College Contributions	\$2,512,107
FY 2018 Measurement year NECE On-behalf Contributions*	\$10,820,152

\*NECE on-behalf contributions include both active members and retirees

**Actuarial Assumptions.** The total OPEB liability was determined by an actuarial valuation as of August 31, 2018 using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Actuarial Assumptions ERS Group Benefits Program Plan	
Remaining Amortization Period	30 Years
Asset Valuation Method	N/A
Inflation Assumption rate	2.50%
HealthSelect	7.30 for FY20, 7.40% for FY21, 7.00% for FY22, decreasing 0.5% per year to 4.50% for FY 2027 and later years
HealthSelect Medicare Advantage	11.80% for FY20, 13.40% for FY21, 7.00% for FY22, decreasing 0.5% per year to 4.50% for FY 2027 and later years The HealthSelect Medicare Trend is projected to be higher in FY2020 and FY2021 as a result of the reinstatement of the ACA Health Insurance Providers Fee following its suspension in CY2019.
Projected annual salary increase (includes inflation)	2.50 to 9.50%
Discount Rate	3.96%
Mortality	1. State Agency Members a. <u>Service Retirees, Survivors and other Inactive Members</u> - 2017 State Retirees of Texas Mortality table with a 1 year set forward for male CPO/CO members and Ultimate MP Projection Scale projected from the b. <u>Disability Retirees</u> - RP-2014 Disabled Retiree Mortality with Ultimate MP Projection Scale projected from the year 2014 c. <u>Active Members</u> : RP-2014 Employee Mortality tables with Ultimate MP Projection Scale from year 2014 2. Higher Education Members a. <u>Service Retirees, Survivors and other Inactive Members</u> : Tables based on TRS experience with Ultimate MP projection using Scale from the b. <u>Disability Retirees</u> : Tables based on TRS experience with Ultimate MP projection from the year 2018 using a 3-year set forward and minimum mortality rates of four per 100 male members and two per 100 female members. c. <u>Active Members</u> : Sex Distinct RP-2014 Employee Mortality multiplied by 90% with Ultimate MP projection Scale from the year 2014.

Source: FY18 ERS CAFR except for mortality assumptions obtained from ERS FY18 GASB 75 Actuarial Valuation

HOUSTON COMMUNITY COLLEGE SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 21 - POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS - CONTINUED

Many of the actuarial assumptions used in this valuation were based on the results of actuarial experience studies performed by the ERS retirement plan actuaries for the period September 1, 2010 to August 31, 2014 for higher education members.

**Investment Policy.** The State Retiree Health Plan is a pay-as-you-go plan and does not accumulate funds in advance of retirement; therefore, the assumed asset allocation and long-term expected real rate of return on investments is not applicable. The ERS's Board of Trustees adopted the amendment to the investment policy in August 2017 to require that all funds in the plan be invested in short-term fixed income securities and specify that the expected rate of return on these investments is 2.4% (see FY 2018 ERS's CAFR, OPEB footnote).

**Discount Rate.** Because the GBP does not accumulate funds in advance of retirement, the discount rate that was used to measure the total OPEB liability is the municipal bonds rate. The discount rate used to determine the total OPEB liability as of the beginning of the measurement year was 3.51%. The discount rate used to measure the total OPEB liability as of the end of the measurement year was 3.96%, which amounted to an increase of 0.45%. The source of the municipal bond rate was the Bond Buyer Index of general obligation bonds with 20 years to maturity and mixed credit quality. The bonds average credit quality is roughly equivalent to Moody's Investors Service's Aa2 rating and Standard & Poor's Corp's AA rating. Projected cash flows into the plan are equal to projected benefit payments out of the plan. Because the plan operates on a pay-as-you-go (PAYGO) basis and is not intended to accumulate assets, there is no long-term expected rate of return on plan assets and therefore the years of projected benefit payments to which the long-term expected rate of return is applicable is zero years.

**Changes to Actuarial Assumptions since prior Actuarial Valuation.** Since the last valuation was prepared for this plan, demographic assumptions (including rates of retirement, disability, termination, and mortality, and assumed salary increases) for Higher Education members have been updated to reflect assumptions recently adopted by the TRS Trustees. These new assumptions were adopted to reflect an experience study on the TRS retirement plan performed by the TRS retirement plan actuary.

In addition, assumed Expenses, assumed Per Capita Health Benefit Costs and assumed Health Benefit Cost, Retiree Contribution and Expense trends have been updated to reflect recent experience and its effects on our short-term expectations. Furthermore, (a) the percentage of current retirees and their spouses not yet eligible to participate in the HealthSelect Medicare Advantage Plan and future retirees and their spouses who will elect to participate in the plan at the earliest date at which coverage can commence and (b) the percentage of future retirees assumed to be married and electing coverage for their spouse have been updated to reflect recent plan experience and expected trends.

Lastly, the discount rate assumption was increased from 3.51% to 3.96% as a result of requirements by GASB No. 74 to utilize the yield or index rate for 20- year, tax-exempt general obligation municipal bonds rated AA/Aa (or equivalent) or higher in effect on the measurement date.

HOUSTON COMMUNITY COLLEGE SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS

**NOTE 21 - POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS - CONTINUED**

**Discount Rate Sensitivity Analysis.** The following schedule shows the impact on the System proportionate share of the collective net OPEB Liability if the discount rate used was 1 percent less than and 1 percent greater than the discount rate that was used (3.96%) in measuring the net OPEB Liability.

	1% Decrease in Discount Rate (2.96%)		Discount Rate (3.96%)		1% Increase in Discount Rate (4.96%)
Houston Community College System proportionate share of the net OPEB liability:	\$ 194,159,650	\$	165,539,661	\$	140,363,805

**Healthcare Trend Rate Sensitivity Analysis.** The initial healthcare trend rate is 8.5% and the ultimate rate is 4.5%. The following schedule shows the impact on the Systems proportionate share of the collective net OPEB Liability if the healthcare cost trend rate used was 1 percent less than and 1 percent greater than the healthcare cost trend rate that was used (4.5%) in measuring the net OPEB Liability.

	1% Decrease in Healthcare Cost Trend Rates (6.30% decreasing to 3.50%)		Current Healthcare Cost Trend Rates (7.30% decreasing to 4.50%)		1% Increase in Healthcare Cost Trend Rates (8.30% decreasing to 5.50%)
Houston Community College System proportionate share of the net OPEB liability:	\$ 138,496,971	\$	163,539,661	\$	195,844,833

**OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB.** At August 31, 2019, the System reported a liability of \$163,539,661 for its proportionate share of the ERS's net OPEB liability. This liability reflects a reduction for State support provided to HCC for OPEB. The amount recognized by the System as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the System were as follows:

Houston Community College System proportionate share of the collective net OPEB liability		\$ 163,539,661
State's proportionate share that is associated with Houston Community College System		<u>110,392,216</u>
Total		<u><u>\$ 273,931,877</u></u>

The net OPEB liability was measured as of August 31, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The employer's proportion of the net OPEB liability was based on the employer's contributions to the OPEB plan relative to the contributions of all employers to the plan for the period September 1, 2017, thru August 31, 2018.

HOUSTON COMMUNITY COLLEGE SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 21 - POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS - CONTINUED

At the measurement date of August 31, 2018, the employer's proportion of the collective net OPEB liability was 0.55179527%, which was an increase of 0.30304742% from its proportion measured as of August 31, 2017.

For the year ended August 31, 2018, the System recognized OPEB expense of \$656,239 and revenue of \$648,416 for support provided by the State.

At August 31, 2018, the System reported its proportionate share of the ERS plan's collective deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 5,991,617
Changes in actuarial assumptions	-	57,308,767
Net Difference between projected and actual investment earnings	77,445	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	104,181,518	-
Contributions paid to ERS subsequent to the measurement date	2,512,107	-
Total	\$ 106,771,070	\$ 63,300,384

The \$2,512,107 reported as deferred outflows of resources resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended August 31, 2020.

The net amounts of the employer's balances of deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended August 31:	OPEB Expense Amount
2020	\$ 6,549,011
2021	6,549,011
2022	11,778,190
2023	9,533,356
Thereafter	-
Total	\$ 34,409,568

HOUSTON COMMUNITY COLLEGE SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 22 - PROPERTY TAX

The System's Property tax is levied each October 1 on the basis of assessed values listed as of the prior January 1 for all real and business personal property located in System.

At August 31:	August 31, 2019 (Tax Year 2018)	August 31, 2018 (Tax Year 2017)
Assessed valuation of the System	\$ 251,225,945,441	\$ 242,829,176,276
Less: Exemptions	(47,954,489,698)	(42,433,914,452)
Net assessed valuation of the System	\$ 203,271,455,743	\$ 200,395,261,824

Taxes levied for the years ended August 31, 2019 and 2018, based on the certified rolls, as reported by the taxing authorities amounted to \$203,806,060 and \$200,922,301, respectively, which includes any penalty and interest assessed if applicable.

Taxes are due by January 31 of the year following the levy and are delinquent if not paid before February 1 of that year.

The authorized and assessed tax rates for the System for the fiscal years ended August 31, 2019 and 2018 were as follows:

	August 31, 2019			August 31, 2018		
	Current Operations	Debt Service	Total	Current Operations	Debt Service	Total
Authorized rate per \$100 valuation	0.50	0.50	1.00	0.50	0.50	1.00
Assessed rate per \$100 valuation	0.076751	0.023512	0.100263	0.076652	0.023611	0.100263

Tax collections for the fiscal years ended August 31, 2019 and 2018 were as follows:

	2019	2018
Current taxes collected	\$ 198,595,648	\$ 196,382,374
Delinquent taxes collected	2,908,194	2,947,519
Penalties and interest collected	1,800,243	1,817,386
Total	\$ 203,304,085	\$ 201,147,279

For the years ended August 31, 2019 and 2018, tax collections represent 97% and 98% of the tax levy, respectively. Taxes assessed are recorded in the System's financial statements net of the related allowance for uncollectable taxes, based upon the System's expected collection experience. The use of tax proceeds is restricted to either maintenance and operations or interest and sinking expenditures.

Harris and Fort Bend counties ("the Appraisal Districts") are responsible for the recording and appraisal of property for all taxing units in their respective counties. The Appraisal Districts are required by State law to assess property at 100% of its appraised value. Further, real property must be reappraised at least every four years. Under certain circumstances, taxpayers and taxing units, including the System, may challenge orders of the appraisal review boards through various appeals and, if necessary, institute legal action.

The System has entered into agreements with the county tax assessors to bill and collect the System's property taxes, net of a collection fee.

HOUSTON COMMUNITY COLLEGE SYSTEM  
NOTES TO THE FINANCIAL STATEMENTS

NOTE 23 - COMPONENT UNITS

**The Houston Community College Foundation (the Foundation) – A Discretely Presented Component Unit**

The Foundation was organized in the State of Texas on May 13, 1976 to function as a legally separate, non-profit foundation and it is controlled by a separate board of trustees. The System does not appoint any of the Foundation's board members nor does it fund or is it obligated to pay debt related to the Foundation. The Foundation's purpose is (1) to maintain, develop, increase and extend the facilities and services of HCC; (2) to provide broad educational opportunities to the System's students, staff, faculty and the residents of the geographical area that the System serves; (3) to solicit and receive by gift, grant, devise, or otherwise, property, both real and personal, and to manage and administer the same, and (4) to make contributions, grants, gifts and transfers of property to or for the benefit of the System, or to or for the benefit of other tax exempt organizations identified and associated with the System.

Using the criteria established by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus-An Amendment of GASB Statements No. 14 and No. 34*, and GASB No. 39, *Determining Whether Certain Organizations are Component Units – An Amendment of GASB Statement No. 14*, the System's management has determined that the Foundation should be reported as a discrete component unit of the System because of the nature and significance of its relationship with the System. The Foundation raises and holds economic resources for the direct benefit of HCC. Accordingly, the Foundation's financial statements are included in the System's comprehensive annual financial report as a discretely presented component unit as Exhibit 1A – Statements of Financial Position - Foundation and Exhibit 2A and 2B – Statements of Activities – Foundation for the fiscal years ended August 31, 2019 and 2018.

For complete financial information about the Foundation, please contact the Foundation at: Houston Community College Foundation, 3100 Main, Suite 12B12, Houston, TX 77002 or visit their website at: <https://www.hccsfoundation.org/page.aspx?pid=767>.

NOTE 24 - SUBSEQUENT EVENTS

On November 6, 2019 the Board of Trustees approved the refunding of the Senior Lien Student Fee Revenue Bonds, Series 2010 of \$17,935,000, the Maintenance Tax Notes, Series 2006 of \$2,980,000, the Maintenance Tax Notes, Series 2009 of \$5,560,000, the Maintenance Tax Notes, Series 2010 of \$28,605,000 and the Limited Tax General Obligation Bonds, Series 2013 of \$40,000,000. It is anticipated the issuance and closing of the new Limited Tax Refunding Bonds and Maintenance Tax Refunding Bonds will be in February 2020, and the new Combined Fee Revenue Refunding Bonds will be in April, 2020.

**REQUIRED SUPPLEMENTARY INFORMATION**  
**(Unaudited)**

HOUSTON COMMUNITY COLLEGE SYSTEM  
SCHEDULE OF HOUSTON COMMUNITY COLLEGE SYSTEM'S SHARE OF NET OPEB LIABILITY  
FOR THE LAST TWO MEASUREMENT YEARS\*\*

Fiscal Year Ending August 31*,	2018	2017
System's proportionate share of collective net OPEB liability(%)	0.5517952700%	0.24874785%
System's proportionate share of collective net OPEB liability(\$)	\$ 163,539,661	\$ 84,755,846
State's proportionate share of net OPEB liability associated with System	<u>110,392,282</u>	<u>84,826,192</u>
Total	<u>\$ 273,931,943</u>	<u>\$ 169,582,038</u>
System's covered payroll	173,191,132	162,660,919
System's share of collective net OPEB liability as a percentage of covered payroll	94.43%	52.11%
Plan fiduciary net position as a percentage of total OPEB liability	1.27%	2.04%

\*The amounts presented above are as of the measurement date of the collective net OPEB liability.

\*\*The schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See accompanying Notes to Required Supplementary Information

HOUSTON COMMUNITY COLLEGE SYSTEM  
SCHEDULE OF HOUSTON COMMUNITY COLLEGE SYSTEM'S OPEB CONTRIBUTIONS  
FOR THE LAST TWO FISCAL YEARS\*\*

<u>Fiscal Year Ending August 31*,</u>	<u>2019</u>	<u>2018</u>
Legally required contributions	\$ 2,512,107	\$ 2,557,844
Actual contributions	<u>2,512,107</u>	<u>2,557,844</u>
Contributions deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
System covered payroll amount	\$ 173,839,594	\$ 173,191,132
Contributions as a percentage of covered employee payroll	1.45%	1.48%

\* The amounts presented above are as of System respective fiscal year-end.

\*\*The schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See accompanying Notes to Required Supplementary Information

HOUSTON COMMUNITY COLLEGE SYSTEM  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
NET OPEB LIABILITY  
FOR THE YEAR ENDED AUGUST 31, 2019

**Changes to Term Benefits**

Under Q/A #4.107 of GASB's Implementation Guide No. 2017-2, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, any plan changes that have been adopted and communicated to plan members by the time the valuation is prepared must be included in the valuation. Accordingly, this valuation reflects the benefit changes that will become effective January 1, 2019, since these changes were communicated to plan members in advance of the preparation of this report. The only benefit change for fiscal year 2019 for HealthSelect retirees and dependents for whom Medicare is not primary is an increase in the out-of-pocket maximum for both HealthSelect and Consumer Directed HealthSelect (CDHP) from \$6,550 to \$6,650 for individuals and from \$13,100 to \$13,300 for families in order to remain consistent with Internal Revenue Service maximums. This minor benefit change is provided for in the fiscal year 2019 Assumed Per Capita Health Benefit Costs. There are no benefit changes for HealthSelect retirees and dependents for whom Medicare is Primary.

**Changes in Actuarial Assumptions**

Since the last valuation was prepared for this plan, demographic assumptions (including rates of retirement, disability, termination, and mortality, and assumed salary increases) for Higher Education members have been updated to reflect assumptions recently adopted by the Teacher Retirement System (TRS) Trustees. These new assumptions were adopted to reflect an experience study on the TRS retirement plan performed by the TRS retirement plan actuary.

In addition, assumed Expenses, assumed Per Capita Health Benefit Costs and assumed Health Benefit Cost, Retiree Contribution and Expense trends have been updated to reflect recent experience and its effects on our short-term expectations. Furthermore, (a) the percentage of current retirees and their spouses not yet eligible to participate in the HealthSelect Medicare Advantage Plan and future retirees and their spouses who will elect to participate in the plan at the earliest date at which coverage can commence and (b) the percentage of future retirees assumed to be married and electing coverage for their spouse have been updated to reflect recent plan experience and expected trends.

Lastly, the discount rate assumption was increased from 3.51% to 3.96% as a result of requirements by GASB No. 74 to utilize the yield or index rate for 20- year, tax-exempt general obligation municipal bonds rated AA/Aa (or equivalent) or higher in effect on the measurement date.

**Demographic Assumptions**

Since the last valuation was prepared for this plan, demographic assumptions (including rates of retirement, disability, termination, and mortality, assumed salary increases and assumed age difference for future retirees and their spouses for selected classes of State Agency employees), assumed aggregate payroll increases and the assumed rate of general inflation have been updated to reflect assumptions recently adopted by the ERS Trustees. These new assumptions were adopted to reflect an experience study on the ERS retirement plan performed by the ERS retirement plan actuary. In addition, the following assumptions have been updated since the previous valuation to reflect recent plan experience and expected trends:

- Percentage of current retirees and retiree spouses not yet eligible to participate in the HealthSelect Medicare Advantage Plan and future retirees and retiree spouses who will elect to participate in the plan at the earliest date at which coverage can commence.
- Proportion of future retirees covering dependent children
- Percentage of future retirees assumed to be married and electing coverage for their spouse.

HOUSTON COMMUNITY COLLEGE SYSTEM  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
NET OPEB LIABILITY  
FOR THE YEAR ENDED AUGUST 31, 2019

**Economic Assumptions**

The assumed rate of general inflation has been updated since the previous valuation to remain consistent with the ERS retirement plan assumption previously adopted by the ERS Trustees. Assumptions for Expenses, Assumed Per Capita Health Benefit Costs and Health Benefit Cost, Retiree Contribution and Expense trends have been updated since the previous valuation to reflect recent health plan experience and its effects on our short-term expectations and the revised assumed rate of general inflation. The discount rate was lowered as a result of requirements by GASB No. 74 to utilize the yield or index rate for 20-year, tax-exempt general obligation bonds rated AA/Aa (or equivalent) or higher. Minor benefit changes have been reflected in the FY 2018 Assumed Per Capita Health Benefit Costs. Actuarial assumption changes are described in ERS's Comprehensive Annual Financial Report and the ERS Actuarial Valuation Report for the year ended August 31, 2017, which can be accessed at:

<https://www.ers.texas.gov/About-ERS/Reports-and-Studies/Reports-on-Overall-ERS-Operations-and-Financial-Management/2017-CAFR.pdf>

<https://www.ers.texas.gov/About-ERS/Reports-and-Studies/ERS-Actuarial-Valuation-Reports/2017-ERS-OPEB-Valuation-Report-November-2017.pdf>.

HOUSTON COMMUNITY COLLEGE SYSTEM  
SCHEDULE OF SYSTEM'S SHARE OF NET PENSION LIABILITY  
FOR THE LAST FIVE MEASUREMENT YEARS\*\*

Year Ending August 31*,	2018	2017	2016	2015	2014
System's proportionate share of collective net pension liability (%)	0.1960476398%	0.2323411497%	0.2261676237%	0.2211843%	0.2524331%
System's proportionate share of collective net pension liability (\$)	\$ 107,909,379	\$ 74,290,183	\$ 85,465,382	\$ 78,185,706	\$ 67,428,372
State's proportionate share of net pension liability associated with HCC	55,835,569	13,365,973	11,565,790	9,346,029	10,129,723
Total	<u>\$ 163,744,948</u>	<u>\$ 87,656,156</u>	<u>\$ 97,031,172</u>	<u>\$ 87,531,735</u>	<u>\$ 77,558,095</u>
System's covered payroll	\$ 148,417,506	\$ 131,555,086	\$ 119,277,740	\$ 111,062,958	\$ 108,523,260
System's share of collective net pension liability as a percentage of covered payroll	72.71%	56.47%	64.97%	65.55%	60.71%
Plan fiduciary net position as a percentage of total pension liability	73.74%	82.17%	78.00%	78.43%	83.25%

\*The amounts presented above are as of the measurement date of the collective net pension liability.

\*\*The schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See accompanying Notes to Required Supplementary Information.

HOUSTON COMMUNITY COLLEGE SYSTEM  
SCHEDULE OF SYSTEM'S PENSION CONTRIBUTIONS  
FOR THE LAST FIVE FISCAL YEARS\*\*

Fiscal Year Ending August 31*,	2019	2018	2017	2016	2015
Legally required contributions	\$ 3,869,654	\$ 7,588,046	\$ 7,099,251	\$ 6,832,860	\$ 5,873,294
Actual contributions	3,869,654	7,588,046	7,099,251	6,832,860	5,873,294
Contributions deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
System covered payroll amount	\$ 144,837,608	\$ 148,417,506	\$ 131,555,086	\$ 119,277,740	\$ 111,062,958
Contributions as a percentage of covered payroll	2.67%	5.11%	5.40%	5.73%	5.29%

\* The amounts presented above are as of System's respective fiscal year-end.

\*\*The schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

\*\*\* During fiscal year 2019, administration determined that more HCC employees could be classified as instructional or administrative resulting in a reduction of HCC's contributions and additional contributions made by the State on behalf of HCC. HCC has initiated the process of requesting credit from the State for previous contributions related to these employees.

See accompanying Notes to Required Supplementary Information

HOUSTON COMMUNITY COLLEGE SYSTEM  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
NET PENSION LIABILITY  
FOR THE YEAR ENDED AUGUST 31, 2019

**Changes of Assumptions**

Assumptions, methods, and plan changes which are specific to the Pension Trust Fund were updated from the prior year's report. The net pension liability increased significantly since the prior measurement date due to a change in the following actuarial assumptions:

- The total pension liability as of August 31, 2018 was developed using a roll-forward method from the August 31, 2017 valuation.
- Demographic assumptions including postretirement mortality, termination rates, and rates of retirement were updated based on the experience study performed for TRS for the period ending August 31, 2017.
- Economic assumptions including rates of salary increase for individual participants was updated based on the same experience study.
- The discount rate changed from 8.00% as of August 31, 2017 to 6.907% as of August 31, 2018.
- The long-term assumed rate of return changed from 8.00% to 7.25%.
- The change in the long-term assumed rate of return combined with the change in the single discount rate was the primary reason for the increase in the net pension liability.

**Changes in Benefit Terms**

There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

**SUPPLEMENTAL SCHEDULES**

HOUSTON COMMUNITY COLLEGE SYSTEM  
SCHEDULE OF OPERATING REVENUES  
FOR THE YEAR ENDED AUGUST 31, 2019  
(WITH MEMORANDUM TOTALS FOR THE YEAR ENDED AUGUST 31, 2018)

Schedule A

	Total		Educational Activities	Auxiliary Enterprises	FY 2019 Total	FY 2018 Total
	Unrestricted	Restricted				
<b>Tuition:</b>						
State Funded Courses:						
In-District Resident Tuition	\$ 18,889,646	\$ -	\$ 18,889,646	\$ -	\$ 18,889,646	\$ 18,813,400
Out-of-District Resident Tuition	27,389,124	-	27,389,124	-	27,389,124	24,180,474
State Funded Continuing Education	6,913,639	-	6,913,639	-	6,913,639	6,891,385
TPEG (Credit)	1,458,688	-	1,458,688	-	1,458,688	2,499,545
TPEG (Non-Credit)	314,582	-	314,582	-	314,582	268,586
Non-Resident Tuition	17,298,848	-	17,298,848	-	17,298,848	16,666,375
Non-State Funded Continuing Education	1,419,765	-	1,419,765	-	1,419,765	1,645,198
<b>Total Tuition</b>	<b>73,684,292</b>	<b>-</b>	<b>73,684,292</b>	<b>-</b>	<b>73,684,292</b>	<b>70,964,963</b>
<b>Fees:</b>						
Distance Learning Fees	3,883,324	-	3,883,324	-	3,883,324	3,033,195
Installment Plan Fees	986,256	-	986,256	-	986,256	1,067,435
General Fees	32,362,392	-	32,362,392	-	32,362,392	33,919,617
Laboratory Fees	1,462,791	-	1,462,791	-	1,462,791	1,681,131
Other Fees	12,769,617	-	12,769,617	-	12,769,617	10,865,370
Student Service Fees	1,874,086	187,691	2,061,777	1,863,604	3,925,381	4,177,601
<b>Total Fees</b>	<b>53,338,466</b>	<b>187,691</b>	<b>53,526,157</b>	<b>1,863,604</b>	<b>55,389,761</b>	<b>54,744,349</b>
<b>Scholarship Allowances and Discounts:</b>						
Remissions and Exemptions-State	(12,370,649)	-	(12,370,649)	-	(12,370,649)	(10,183,800)
Remissions and Exemptions-Local	(1,429,200)	-	(1,429,200)	-	(1,429,200)	(1,402,810)
Title IV Federal Grants	(30,645,030)	-	(30,645,030)	-	(30,645,030)	(29,098,549)
Other Federal Grants	(2,507,228)	-	(2,507,228)	-	(2,507,228)	(2,644,398)
TPEG Awards	(1,220,319)	-	(1,220,319)	-	(1,220,319)	(1,776,320)
Other State Grants	(2,235,673)	-	(2,235,673)	-	(2,235,673)	(3,326,854)
Other Local Grants	(1,740,564)	-	(1,740,564)	-	(1,740,564)	(1,401,397)
<b>Total Scholarship Allowances and Discounts</b>	<b>(52,148,663)</b>	<b>-</b>	<b>(52,148,663)</b>	<b>-</b>	<b>(52,148,663)</b>	<b>(49,834,128)</b>
<b>Total Net Tuition and Fees</b>	<b>74,874,095</b>	<b>187,691</b>	<b>75,061,786</b>	<b>1,863,604</b>	<b>76,925,390</b>	<b>75,875,184</b>
<b>Other Operating Revenues:</b>						
Federal Grants and Contracts	-	13,664,066	13,664,066	-	13,664,066	14,618,765
State Grants and Contracts	-	5,257,785	5,257,785	-	5,257,785	7,241,239
Local Grants and Contracts	-	88,039	88,039	-	88,039	97,715
Non-Governmental Grants and Contracts	-	1,448,396	1,448,396	-	1,448,396	1,350,083
Sales and Services	334,776	111,288	446,064	1,713	447,777	281,262
<b>Total Other Operating Revenues</b>	<b>334,776</b>	<b>20,569,574</b>	<b>20,904,350</b>	<b>1,713</b>	<b>20,906,063</b>	<b>23,589,064</b>
<b>Auxiliary Enterprises:</b>						
Bookstore	-	-	-	2,168,389	2,168,389	2,367,482
Long-Term Parking	-	-	-	600,917	600,917	504,218
Rental of Facilities	-	-	-	7,464,887	7,464,887	6,532,908
Restaurant	-	-	-	419,968	419,968	420,633
Vending and Other Commissions	-	-	-	115,500	115,500	126,000
<b>Total Auxiliary Enterprises</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,769,661</b>	<b>10,769,661</b>	<b>9,951,241</b>
<b>Total Operating Revenues</b>	<b>\$ 75,208,871</b>	<b>\$ 20,757,265</b>	<b>\$ 95,966,136</b>	<b>\$ 12,634,978</b>	<b>\$ 108,601,114</b>	<b>\$ 109,415,489</b>

See Report of Independent Certified Public Accountants

HOUSTON COMMUNITY COLLEGE SYSTEM  
SCHEDULE OF OPERATING EXPENSES BY OBJECT  
FOR THE YEAR ENDED AUGUST 31, 2019  
(WITH MEMORANDUM TOTALS FOR THE YEAR ENDED AUGUST 31, 2018)

Schedule B

	Operating Expenses				FY 2019 Total	FY 2018 Total
	Salaries and Wages	Benefits		Other Expenses		
		State	Local			
Unrestricted Educational Activities						
Instruction	\$ 107,530,095	\$ -	\$ 26,172,386	\$ 3,508,804	\$ 137,211,285	\$ 127,769,035
Public Service	781,789	-	190,284	380,182	1,352,255	1,318,068
Academic Support	23,010,512	-	4,667,689	5,850,149	33,528,350	32,367,483
Student Services	24,092,265	-	5,530,338	3,015,549	32,638,152	30,839,997
Institutional Support	44,084,937	-	11,996,690	25,695,218	81,776,845	74,128,981
Operation and Maintenance of Plant	3,266,724	-	795,107	27,263,053	31,324,884	29,844,750
Total Unrestricted Educational Activities	<u>202,766,322</u>	<u>-</u>	<u>49,352,494</u>	<u>65,712,955</u>	<u>317,831,771</u>	<u>296,268,314</u>
Restricted Educational Activities						
Instruction	325,005	10,044,725	37,472	370,758	10,777,960	9,515,567
Public Service	4,461,164	-	720,693	2,777,548	7,959,405	8,875,823
Academic Support	273,638	1,791,417	59,108	153,466	2,277,629	2,180,728
Student Services	2,343,187	2,122,494	25,715	753,381	5,244,777	4,818,713
Institutional Support	7,560	4,604,221	883	37,329	4,649,993	3,727,263
Scholarship and Fellowship	-	-	-	59,527,291	59,527,291	62,863,907
Total Restricted Educational Activities	<u>7,410,554</u>	<u>18,562,857</u>	<u>843,871</u>	<u>63,619,773</u>	<u>90,437,055</u>	<u>91,982,001</u>
Total Educational Activities	210,176,876	18,562,857	50,196,365	129,332,728	408,268,826	388,250,315
Auxiliary Enterprises	2,167,608	-	633,740	7,471,102	10,272,450	11,571,893
Depreciation - Buildings	-	-	-	23,869,807	23,869,807	17,109,541
Depreciation - Equipment	-	-	-	9,300,207	9,300,207	8,518,733
Depreciation - Library Books	-	-	-	365,394	365,394	403,508
Total Operating Expenses	<u>\$ 212,344,484</u>	<u>\$ 18,562,857</u>	<u>\$ 50,830,105</u>	<u>\$ 170,339,238</u>	<u>\$ 452,076,684</u>	<u>\$ 425,853,990</u>
				(Exhibit 2)	(Exhibit 2)	

See Report of Independent Certified Public Accountants

HOUSTON COMMUNITY COLLEGE SYSTEM  
SCHEDULE OF NON-OPERATING REVENUES AND EXPENSES  
FOR THE YEAR ENDED AUGUST 31, 2019  
(WITH MEMORANDUM TOTALS FOR THE YEAR ENDED AUGUST 31, 2018)

Schedule C

	Unrestricted	Restricted	Auxiliary Enterprises	FY 2019 Total	FY 2018 Total
NON-OPERATING REVENUES:					
State Appropriations:					
Educational and General State Support	\$ 68,133,037	\$ -	\$ -	\$ 68,133,037	\$ 68,134,644
State Group Insurance	-	11,864,237	-	11,864,237	12,895,414
State Retirement Matching	-	6,706,443	-	6,706,443	2,321,572
Other State Appropriations	41,547	-	-	41,547	30,800
Total State Appropriations	68,174,584	18,570,680	-	86,745,264	83,382,430
Maintenance Ad Valorem Taxes	152,465,955	-	-	152,465,955	150,689,019
Debt Service Ad Valorem Taxes	-	46,902,232	-	46,902,232	46,321,795
Gifts	-	2,050,560	301,117	2,351,677	2,009,979
Investment Income, Net	7,155,919	-	-	7,155,919	4,221,227
Title IV Grants	-	87,471,633	-	87,471,633	88,168,184
Hurricane Harvey	148,521	-	-	148,521	-
Gain on Sale of Capital Assets	-	-	-	-	725,332
Other Non-operating Revenue	2,804,469	-	6,622	2,811,091	2,507,767
Total Non-operating Revenues	230,749,448	154,995,105	307,739	386,052,292	378,025,733
NON-OPERATING EXPENSES:					
Interest on Capital-Related Debt	(28,956,205)	-	-	(28,956,205)	(30,411,867)
Hurricane Harvey Expenses (Net of Recoveries)	-	-	-	-	(184,313)
Other Non-operating Expenses	(10,718,448)	-	-	(10,718,448)	(8,395,813)
Total Non-operating Expenses	(39,674,653)	-	-	(39,674,653)	(38,991,993)
NET NON-OPERATING REVENUES	\$ 191,074,795	\$ 154,995,105	\$ 307,739	\$ 346,377,639	\$ 339,033,740
				(Exhibit 2)	(Exhibit 2)

See Report of Independent Certified Public Accountants

HOUSTON COMMUNITY COLLEGE SYSTEM  
SCHEDULE OF NET POSITION BY SOURCE AND AVAILABILITY  
FOR THE YEAR ENDED AUGUST 31, 2019  
(WITH MEMORANDUM TOTALS FOR THE YEAR ENDED AUGUST 31, 2018)

Schedule D

	Detail by Source					Available for Current Operations	
	Unrestricted	Restricted		Capital Assets Net of Depreciation & Related Debt	Total	Yes	No
		Expendable	Non-Expendable				
Current:							
Unrestricted	\$ (59,508,464)	\$ -	\$ -	\$ -	\$ (59,508,464)	\$ (59,508,464)	\$ -
Auxiliary enterprises	12,008,925	-	-	-	12,008,925	12,008,925	-
Restricted	-	-	-	-	-	-	-
Loan	-	393,380	-	-	393,380	-	393,380
Endowment:	-	-	-	-	-	-	-
Plant:	-	-	-	-	-	-	-
Unexpended	44,405,228	-	-	-	44,405,228	44,405,228	-
Debt Services	-	12,647,475	-	-	12,647,475	-	12,647,475
Investment in Plant	-	-	-	383,077,877	383,077,877	-	383,077,877
Total Net Position August 31, 2019	(3,094,311)	13,040,855	-	383,077,877	393,024,421 Exhibit 1	(3,094,311)	396,118,732
Total Net Position August 31, 2018	14,669,400	12,120,519	-	363,332,433	390,122,352 Exhibit 1	14,669,400	375,452,952
Net Increase (Decrease) in Net Position	<u>\$ (17,763,711)</u>	<u>\$ 920,336</u>	<u>\$ -</u>	<u>\$ 19,745,444</u>	<u>\$ 2,902,069</u> Exhibit 2	<u>\$ (17,763,711)</u>	<u>\$ 20,665,780</u>

See Report of Independent Certified Public Accountant

**STATISTICAL SECTION  
(Unaudited)**

## **HOUSTON COMMUNITY COLLEGE SYSTEM STATISTICAL SECTION NARRATIVE**

### **Statistical Section**

This section of HCC's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about HCC's overall financial health.

### **Financial Trends**

This section contains trend information to help the reader understand how HCC's financial performance and well-being have changed over time.

### **Revenue Capacity**

This section includes information to help the reader assess HCC's most significant local revenue source, property tax.

### **Debt Capacity**

This section presents information to help the reader assess the affordability of HCC's current levels of outstanding debt and the System's ability to issue additional debt in the future.

### **Economic & Demographic Information**

This section depicts demographic and economic indicators to help the reader understand the environment within which HCC's financial activities take place.

### **Operating Information**

This section displays service and capital asset data to help the reader understand how the information in HCC's financial report relates to the services HCC provides and the activities it performs.

Sources: Unless otherwise stated, the information in this section is derived from the comprehensive annual financial reports for the relevant year.

HOUSTON COMMUNITY COLLEGE SYSTEM  
NET POSITION BY COMPONENT  
LAST TEN FISCAL YEARS  
(Amounts Expressed in Thousands)  
(Unaudited)

Table 1

	<u>2019</u>	<u>2018**</u>	<u>2017</u>	<u>2016</u>	<u>2015*</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Net Investment in Capital Assets	\$ 383,077	\$ 363,332	\$ 374,111	\$ 318,344	\$ 290,771	\$ 244,073	\$ 230,706	\$ 234,825	\$ 207,977	\$ 197,013
Restricted - Expendable	13,041	12,121	18,555	14,035	13,290	14,804	1,216	488	488	449
Unrestricted	(3,094)	14,669	73,796	82,082	60,357	114,975	107,142	87,004	73,959	70,083
Total Primary Government, Net Position	<u>\$ 393,024</u>	<u>\$ 390,122</u>	<u>\$ 466,462</u>	<u>\$ 414,461</u>	<u>\$ 364,418</u>	<u>\$ 373,852</u>	<u>\$ 339,063</u>	<u>\$ 322,317</u>	<u>\$ 282,424</u>	<u>\$ 267,545</u>
Net Increase/(Decrease) in Net Position	<u>\$ 2,902</u>	<u>\$ (76,340)</u>	<u>\$ 52,001</u>	<u>\$ 50,043</u>	<u>\$ (9,434)</u>	<u>\$ 34,789</u>	<u>\$ 16,746</u>	<u>\$ 39,893</u>	<u>\$ 14,879</u>	<u>\$ 267,545</u>

\* GASB 68 was implemented in FY 2015.

\*\* GASB 75 was implemented in FY 2018.

**HOUSTON COMMUNITY COLLEGE SYSTEM  
PROGRAM REVENUES BY SOURCE  
LAST TEN FISCAL YEARS  
(Unaudited)**

Table 2

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
<b>OPERATING REVENUES:</b>										
Tuition and Fees, Net of Discounts	\$ 76,925,390	\$ 75,875,184	\$ 78,928,147	\$ 79,625,900	\$ 75,079,230	\$ 70,689,034	\$ 71,433,953	\$ 71,415,957	\$ 67,907,897	\$ 65,655,752
Federal Grants and Contracts	13,664,066	14,618,765	14,092,252	13,844,635	13,782,110	14,019,776	14,702,419	16,848,269	16,064,089	16,243,394
State Grants and Contracts	5,257,785	7,241,239	6,848,608	6,790,982	9,250,630	5,714,975	6,267,894	5,166,289	6,600,375	5,230,511
Local Grants and Contracts	88,039	97,715	148,327	157,041	162,920	116,899	81,407	95,226	275,085	79,055
Non-governmental Grants and Contracts	1,448,396	1,350,083	1,680,496	3,060,584	2,446,357	2,441,076	2,413,531	2,497,892	1,283,150	1,286,822
Sales and Services of Educational Activities	447,777	281,262	333,874	273,441	177,222	189,043	193,328	329,382	369,530	315,835
Auxiliary Enterprises	10,769,661	9,951,241	12,100,510	10,141,084	13,544,991	16,420,059	16,092,899	16,096,494	14,535,914	10,493,233
<b>Total Operating Revenues</b>	<b>108,601,114</b>	<b>109,415,489</b>	<b>114,132,214</b>	<b>113,893,667</b>	<b>114,443,461</b>	<b>109,590,862</b>	<b>111,185,431</b>	<b>112,449,510</b>	<b>107,036,040</b>	<b>99,304,602</b>
<b>NON-OPERATING REVENUES:</b>										
State Appropriations	86,745,264	83,382,430	84,194,227	83,877,620	82,249,495	81,675,719	82,105,228	81,839,826	84,838,315	84,665,409
Ad Valorem Taxes	199,368,187	197,010,814	191,684,394	179,907,211	173,457,004	143,389,744	129,256,277	123,638,019	115,820,065	119,273,809
Gifts	2,351,677	2,009,979	1,875,561	2,025,562	1,260,854	1,436,292	1,591,888	2,053,638	1,573,601	1,555,967
Investment Income	7,155,919	4,221,227	3,557,445	2,752,692	2,950,156	3,704,351	(140,747)	789,917	566,945	900,323
Disaster Relief Grants	-	-	-	-	-	-	-	-	-	1,415,592
Title IV (Pell)	87,471,633	88,168,184	80,531,464	86,117,577	95,673,111	94,092,798	94,423,841	102,023,662	96,171,936	75,639,561
Other Non-operating Revenues	2,959,612	3,233,099	7,157,578	2,848,147	7,460,036	1,672,149	6,446,858	9,341,129	6,153,631	3,455,364
<b>Total Non-operating Revenues</b>	<b>386,052,292</b>	<b>378,025,733</b>	<b>369,000,669</b>	<b>357,528,809</b>	<b>363,050,656</b>	<b>325,971,053</b>	<b>313,683,345</b>	<b>319,686,191</b>	<b>305,124,493</b>	<b>286,906,025</b>
<b>TOTAL REVENUES</b>	<b>\$ 494,653,406</b>	<b>\$ 487,441,222</b>	<b>\$ 483,132,883</b>	<b>\$ 471,422,476</b>	<b>\$ 477,494,118</b>	<b>\$ 435,561,915</b>	<b>\$ 424,868,776</b>	<b>\$ 432,135,701</b>	<b>\$ 412,160,533</b>	<b>\$ 386,210,626</b>

Note: Nursing Shortage Reduction revenue was classified as operating revenue versus non-operating revenue in FY 2017. All prior periods have been adjusted to reflect this change.

**HOUSTON COMMUNITY COLLEGE SYSTEM  
PROGRAM REVENUES BY SOURCE- CONTINUED  
LAST TEN FISCAL YEARS  
(Unaudited)**

Table 2

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
<b>OPERATING REVENUES:</b>										
Tuition and Fees, Net of Discounts	15.55%	15.57%	16.34%	16.89%	15.72%	16.23%	16.81%	16.53%	16.48%	17.00%
Federal Grants and Contracts	2.76%	3.00%	2.92%	2.94%	2.89%	3.22%	3.46%	3.90%	3.90%	4.21%
State Grants and Contracts	1.06%	1.49%	1.42%	1.44%	1.94%	1.31%	1.48%	1.20%	1.60%	1.35%
Local Grants and Contracts	0.02%	0.02%	0.03%	0.03%	0.03%	0.03%	0.02%	0.02%	0.07%	0.02%
Non-governmental Grants and Contracts	0.29%	0.28%	0.35%	0.65%	0.51%	0.56%	0.57%	0.58%	0.31%	0.33%
Sales and Services of Educational Activities	0.09%	0.06%	0.07%	0.06%	0.04%	0.04%	0.05%	0.08%	0.09%	0.08%
Auxiliary Enterprises	2.18%	2.04%	2.50%	2.15%	2.84%	3.77%	3.79%	3.72%	3.53%	2.72%
<b>Total Operating Revenues</b>	<b>21.95%</b>	<b>22.45%</b>	<b>23.62%</b>	<b>24.16%</b>	<b>23.97%</b>	<b>25.16%</b>	<b>26.17%</b>	<b>26.02%</b>	<b>25.97%</b>	<b>25.71%</b>
<b>NON-OPERATING REVENUES:</b>										
State Appropriations	17.54%	17.11%	17.43%	17.79%	17.23%	18.75%	19.32%	18.94%	20.58%	21.92%
Ad Valorem Taxes	40.30%	40.42%	39.68%	38.16%	36.33%	32.92%	30.42%	28.61%	28.10%	30.88%
Gifts	0.48%	0.41%	0.39%	0.43%	0.26%	0.33%	0.37%	0.48%	0.38%	0.40%
Investment Income	1.45%	0.87%	0.74%	0.58%	0.62%	0.85%	-0.03%	0.18%	0.14%	0.23%
Disaster Relief Grants	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.37%
Title IV (Pell)	17.68%	18.09%	16.67%	18.27%	20.04%	21.60%	22.22%	23.61%	23.33%	19.59%
Other Non-operating Revenues	0.60%	0.66%	1.48%	0.60%	1.56%	0.38%	1.52%	2.16%	1.49%	0.89%
<b>Total Non-operating Revenues</b>	<b>78.05%</b>	<b>77.55%</b>	<b>76.38%</b>	<b>75.84%</b>	<b>76.03%</b>	<b>74.84%</b>	<b>73.83%</b>	<b>73.98%</b>	<b>74.03%</b>	<b>74.29%</b>
<b>TOTAL REVENUES</b>	<b>100.00%</b>									

Note: Nursing Shortage Reduction revenue was classified as operating revenue versus non-operating revenue in FY 2017. All prior periods have been adjusted to reflect this change.

HOUSTON COMMUNITY COLLEGE SYSTEM  
PROGRAM EXPENSES BY FUNCTION  
LAST TEN FISCAL YEARS  
(Unaudited)

Table 3

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
OPERATING EXPENSES:										
Instruction	\$ 147,989,245	\$ 137,284,602	\$ 131,976,183	\$ 123,860,246	\$ 118,383,131	\$ 112,628,406	\$ 111,931,030	\$ 100,319,497	\$ 112,617,877	\$ 113,319,505
Public Service	9,311,660	10,193,891	11,251,480	10,885,467	10,295,409	10,628,104	11,638,013	11,868,925	11,766,675	11,477,787
Academic Support	35,805,979	34,548,211	33,437,021	32,357,317	31,781,726	26,699,201	25,060,153	22,771,173	19,616,391	23,449,473
Student Services	37,882,929	35,658,710	32,769,639	30,877,171	31,448,417	29,244,604	29,165,865	24,906,487	31,901,438	30,902,922
Institutional Support	86,426,838	77,856,244	76,337,702	69,312,047	60,572,436	60,301,482	54,332,112	56,815,639	53,657,535	51,402,656
Operation and Maintenance of Plant	31,324,884	29,844,750	27,636,411	27,396,317	28,820,028	35,885,631	31,438,811	27,969,778	28,350,817	35,937,690
Scholarships and Fellowships	59,527,291	62,863,907	55,435,891	58,153,241	61,638,293	58,733,940	57,092,409	61,504,372	65,346,087	49,920,320
Auxiliary Enterprises	10,272,450	11,571,893	11,064,979	11,839,737	13,853,632	17,233,929	18,760,757	15,736,795	14,607,330	9,740,078
Depreciation	33,535,408	26,031,782	24,303,365	22,724,776	21,484,508	19,743,511	19,492,034	18,848,802	17,067,466	14,832,747
Total Operating Expenses	452,076,684	425,853,990	404,212,671	387,406,319	378,277,580	371,098,809	358,911,184	340,741,468	354,931,616	340,983,178
NON-OPERATING EXPENSES:										
Interest on Capital Related Debt	28,956,205	30,411,867	17,991,413	19,535,342	24,312,876	16,346,638	36,827,644	28,498,392	29,424,886	25,379,834
Loss on Sale of Fixed Assets	-	-	-	5,517,511	-	-	-	-	-	-
Hurricane Expense, Net	-	184,313	-	-	-	-	12,431	626,194	284,103	561,861
Other Non-operating Expenses	10,718,448	8,395,813	8,927,703	8,920,785	7,940,686	13,327,637	12,371,070	22,377,547	12,639,933	12,174,272
Total Non-operating Expenses	39,674,653	38,991,993	26,919,116	33,973,638	32,253,562	29,674,275	49,211,145	51,502,133	42,348,922	38,115,967
Total Expenses	\$ 491,751,337	\$ 464,845,983	\$ 431,131,787	\$ 421,379,957	\$ 410,531,142	\$ 400,773,084	\$ 408,122,329	\$ 392,243,601	\$ 397,280,538	\$ 379,099,145

Note: Property tax expense was classified as non-operating expense versus operating expense in FY 2017. All prior periods have been adjusted to reflect this change.

HOUSTON COMMUNITY COLLEGE SYSTEM  
PROGRAM EXPENSES BY FUNCTION - CONTINUED  
LAST TEN FISCAL YEARS  
(Unaudited)

Table 3

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
OPERATING EXPENSES:										
Instruction	30.09%	29.53%	30.61%	29.39%	28.84%	28.10%	27.43%	25.58%	28.35%	29.89%
Public Service	1.89%	2.19%	2.61%	2.58%	2.51%	2.65%	2.85%	3.03%	2.96%	3.03%
Academic Support	7.28%	7.43%	7.76%	7.68%	7.74%	6.66%	6.14%	5.81%	4.94%	6.19%
Student Services	7.70%	7.67%	7.60%	7.33%	7.66%	7.30%	7.15%	6.35%	8.03%	8.15%
Institutional Support	17.58%	16.75%	17.71%	16.45%	14.75%	15.05%	13.31%	14.48%	13.51%	13.56%
Operation and Maintenance of Plant	6.37%	6.42%	6.41%	6.50%	7.02%	8.95%	7.70%	7.13%	7.14%	9.48%
Scholarships and Fellowships	12.11%	13.52%	12.86%	13.80%	15.01%	14.66%	13.99%	15.68%	16.45%	13.17%
Auxiliary Enterprises	2.09%	2.49%	2.57%	2.81%	3.37%	4.30%	4.60%	4.01%	3.68%	2.57%
Depreciation	6.82%	5.60%	5.64%	5.39%	5.23%	4.93%	4.78%	4.81%	4.30%	3.91%
<b>Total Operating Expenses</b>	<b>91.93%</b>	<b>91.61%</b>	<b>93.76%</b>	<b>91.94%</b>	<b>92.14%</b>	<b>92.60%</b>	<b>87.94%</b>	<b>86.87%</b>	<b>89.34%</b>	<b>89.95%</b>
NON-OPERATING EXPENSES:										
Interest on Capital Related Debt	5.89%	6.54%	4.17%	4.64%	5.92%	4.08%	9.02%	7.27%	7.41%	6.69%
Loss on Sale of Fixed Assets	0.00%	0.00%	0.00%	1.31%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Hurricane Ike Expense, Net	0.00%	0.04%	0.00%	0.00%	0.00%	0.00%	0.00%	0.16%	0.07%	0.15%
Other Non-operating Expenses	2.18%	1.81%	2.07%	2.12%	1.93%	3.33%	3.03%	5.71%	3.18%	3.21%
<b>Total Non-operating Expenses</b>	<b>8.07%</b>	<b>8.39%</b>	<b>6.24%</b>	<b>8.06%</b>	<b>7.86%</b>	<b>7.40%</b>	<b>12.06%</b>	<b>13.13%</b>	<b>10.66%</b>	<b>10.05%</b>
<b>Total Expenses</b>	<b>100.00%</b>									

Note: Property tax expense was classified as non-operating expense versus operating expense in FY 2017. All prior periods have been adjusted to reflect this change.

HOUSTON COMMUNITY COLLEGE SYSTEM  
TUIITION AND FEES  
LAST TEN ACADEMIC YEARS  
(Unaudited)

Table 4

<b>SEMESTER CREDIT HOUR (SCH)</b>									
<b>IN-DISTRICT</b>									
Academic Year	Semester	Tuition	General Fee	Technology Fee	Student Activity Services Fee	Recreation Fee	Cost for 12 SCH	Increase from Prior Semester	
2018-2019	Spring	\$ 372	\$ 306	\$ 168.00	\$ 12	\$ 6	\$ 864.00	5.9%	
2018-2019	Fall	372	306	120.00	12	6	816.00	0.0%	
2017-2018	Fall	372	306	120.00	12	6	816.00	0.0%	
2016-2017	Fall	372	306	120.00	12	6	816.00	0.0%	
2015-2016	Fall	372	306	120.00	12	6	816.00	0.1%	
2014-2015	Fall	372	306	118.80	12	6	814.80	0.0%	
2013-2014	Fall	372	306	118.80	12	6	814.80	0.1%	
2012-2013	Fall	372	306	117.60	12	6	813.60	0.1%	
2011-2012	Fall	372	306	116.40	12	6	812.40	0.1%	
2010-2011	Summer	372	306	115.20	12	6	811.20	18.4%	
2010-2011	Fall	300	264	103.20	12	6	685.20	0.2%	
2009-2010	Fall	300	264	102.00	12	6	684.00	1.8%	

Note: Recreation Fee previously known as Athletic Fee.

In addition students may incur course related fees such as laboratory fees, testing fees, distance education fees and certification fees.

HOUSTON COMMUNITY COLLEGE SYSTEM  
Tuition and Fees - Continued  
Last Ten Academic Years  
(Unaudited)

Table 4

<b>SEMESTER CREDIT HOUR (SCH)</b>									
<b>OUT-OF-DISTRICT</b>									
Academic Year	Semester	Tuition	Out-of-District General Fee	Technology Fee	Student Activity Services Fee	Recreation Fee	Cost for 12 SCH	Increase from Prior Semester	
2018-2019	Spring	\$ 1,332	\$ 402	\$ 168.00	\$ 12	\$ 6	\$ 1,920.00	14.3%	
2018-2019	Fall	1,140	402	120.00	12	6	1,680.00	0.0%	
2017-2018	Fall	1,140	402	120.00	12	6	1,680.00	0.0%	
2016-2017	Fall	1,140	402	120.00	12	6	1,680.00	0.0%	
2015-2016	Fall	1,140	402	120.00	12	6	1,680.00	0.1%	
2014-2015	Fall	1,140	402	118.80	12	6	1,678.80	0.0%	
2013-2014	Fall	1,140	402	118.80	12	6	1,678.80	0.1%	
2012-2013	Fall	1,140	402	117.60	12	6	1,677.60	0.1%	
2011-2012	Fall	1,140	402	116.40	12	6	1,676.40	3.8%	
2010-2011	Summer	1,080	402	115.20	12	6	1,615.20	14.0%	
2010-2011	Fall	972	324	103.20	12	6	1,417.20	6.4%	
2009-2010	Fall	948	264	102.00	12	6	1,332.00	0.9%	

Note: Recreation Fee previously known as Athletic Fee.

In addition students may incur course related fees such as laboratory fees, testing fees, distance education fees and certification fees.

HOUSTON COMMUNITY COLLEGE SYSTEM  
Tuition and Fees - Continued  
Last Ten Academic Years  
(Unaudited)

Table 4

Academic Year	Semester	Tuition	SEMESTER CREDIT HOUR (SCH)				Cost for 12 SCH	Increase from Prior Semester
			OUT-OF-STATE/INTERNATIONAL					
			Out-of-State General Fee	Technology Fee	Student Activity Services Fee	Recreation Fee		
2018-2019	Spring	\$ 1,572	\$ 600	\$ 168.00	\$ 12	\$ 6	\$ 2,358.00	25.6%
2018-2019	Fall	1,140	600	120.00	12	6	1,878.00	0.0%
2017-2018	Fall	1,140	600	120.00	12	6	1,878.00	0.0%
2016-2017	Fall	1,140	600	120.00	12	6	1,878.00	0.0%
2015-2016	Fall	1,140	600	120.00	12	6	1,878.00	0.1%
2014-2015	Fall	1,140	600	118.80	12	6	1,876.80	0.0%
2013-2014	Fall	1,140	600	118.80	12	6	1,876.80	0.1%
2012-2013	Fall	1,140	600	117.60	12	6	1,875.60	0.1%
2011-2012	Fall	1,140	600	116.40	12	6	1,874.40	3.4%
2010-2011	Summer	1,080	600	115.20	12	6	1,813.20	7.1%
2010-2011	Fall	972	600	103.20	12	6	1,693.20	7.7%
2009-2010	Fall	912	540	102.00	12	6	1,572.00	0.8%

Note: Recreation Fee previously known as Athletic Fee.

In addition students may incur course related fees such as laboratory fees, testing fees, distance education fees and certification fees.

HOUSTON COMMUNITY COLLEGE SYSTEM  
 ASSESSED VALUE AND TAXABLE ASSESSED VALUE OF PROPERTY  
 LAST TEN FISCAL YEARS  
 (Unaudited)

Table 5

Fiscal Year	Assessed Valuation of Property	Less: Exemptions & Abatements	Taxable Assessed Value (TAV)	Ratio of Taxable Assessed Value to Assessed Value	Tax Rate		
					Maintenance & Operations	Debt Service	Total Tax Rate (a)
2019	\$ 251,225,945,441	\$ 47,954,489,698	\$ 203,271,455,743	80.91%	\$ 0.076751	\$ 0.023512	\$ 0.100263
2018	242,829,176,276	42,433,914,452	200,395,261,824	82.53%	0.076652	\$ 0.023611	0.100263
2017	238,048,215,381	44,312,008,221	193,736,207,160	81.39%	0.075277	0.024986	0.100263
2016	221,458,121,257	42,287,303,553	179,170,817,704	80.91%	0.075631	0.026311	0.101942
2015	198,955,482,183	36,077,649,997	162,877,832,186	81.87%	0.077055	0.029835	0.106890
2014	180,734,029,067	34,213,942,090	146,520,086,977	81.07%	0.077055	0.020118	0.097173
2013	145,875,030,461	12,890,703,534	132,984,326,927	91.16%	0.079673	0.017500	0.097173
2012	159,141,889,758	31,729,564,366	127,412,325,392	80.06%	0.083399	0.013823	0.097222
2011	157,165,651,239	31,190,173,147	125,975,478,092	80.15%	0.074901	0.017319	0.092220
2010	158,860,572,423	28,430,763,993	130,429,808,430	82.10%	0.077839	0.014381	0.092220

Source: Local Appraisal Districts

Notes: Property is assessed at full market value.

(a) Total Tax Rate is per \$100 Taxable Assessed Valuation

HOUSTON COMMUNITY COLLEGE SYSTEM  
GENERAL APPROPRIATIONS ACT<sup>1</sup> BEFORE CONTACT HOUR ADJUSTMENTS  
LAST TEN FISCAL YEARS  
(Unaudited)

Table 6a

<b>Appropriation Funding Elements (Allocated)</b>	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
State Appropriation Contact Hour Funding (CH)	\$60,710,669	\$60,712,276	\$63,177,743	\$63,177,743	\$62,190,430	\$62,190,430	\$70,326,503	\$70,326,503	\$70,337,113	\$70,337,112
State Appropriation Student Success Points (SSP)	6,741,962	6,741,962	6,484,471	6,484,471	6,458,505	6,458,505	-	-	-	-
State Appropriation Core Operations (CO)	680,406	680,406	500,000	500,000	500,000	500,000	-	-	-	-
State Appropriation Bachelor of Applied Technology (BAT)☐	-	-	-	-	-	-	-	-	-	-
State Appropriation Non-Formula Items☐	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>\$68,133,037</b>	<b>\$68,134,644</b>	<b>\$70,162,214</b>	<b>\$70,162,214</b>	<b>\$69,148,935</b>	<b>\$69,148,935</b>	<b>\$70,326,503</b>	<b>\$70,326,503</b>	<b>\$70,337,113</b>	<b>\$70,337,112</b>

<sup>1</sup> General Appropriations Act, SB 1, 85th Texas Legislature, Section 1 (page III-209) - Informational Listing of Appropriated Funds.

Note: The requirements for Tables 6 were changed by the THECB in fiscal year 2018.

Source: THECB - Ten Pay Schedule for FY 2019 thru FY 2010.

HOUSTON COMMUNITY COLLEGE SYSTEM  
STATE APPROPRIATION PER FTSE  
LAST TEN FISCAL YEARS  
(Unaudited)

Table 6b

Fiscal Year	State Appropriation (Unrestricted) From Sch C*	FTSE <sup>1</sup>	State Appropriation per FTSE
2019	\$ 68,133,037	36,242	\$ 1,880
2018	68,134,644	37,551	1,814
2017	70,276,780	38,065	1,846
2016	70,162,218	38,518	1,822
2015	69,148,935	39,721	1,741
2014	69,148,935	38,766	1,784
2013	70,014,003	38,958	1,797
2012	70,232,038	40,486	1,735
2011	65,957,104	41,274	1,598
2010	65,791,457	38,955	1,689

<sup>1</sup> In order to provide consistency with other reporting, HCC has elected to adopt the THECB standard methodology for calculating FTSE that is used for benchmarking and HCC's internal KPI's (Key Performance Indicator). Prior year calculations have been restated to reflect this change. The FTSE ratios calculated and published by THECB are based on CBM submissions and are calculated as follows: Fiscal Year FTSE (Full-Time Student Equivalent) is equal to the sum of state funded (Fall SCH [Semester Credit Hours] + Spring SCH + Summer SCH for the current fiscal year, or 30 SCH) plus state funded continuing education (Fall CH (Contact Hours) + Spring CH + Summer CH for the current fiscal year, or 900 CH).  
Source: Schedule C (AFR) and HCC Certified Reports (CBM004 & CBM00C).

\* Actual Received

HOUSTON COMMUNITY COLLEGE SYSTEM  
STATE APPROPRIATION PER FUNDED CONTACT HOUR (CH)  
CONTRACT HOUR PORTION ONLY OF STATE APPROPRIATION  
LAST TEN FISCAL YEARS  
(Unaudited)

Table 6c

Fiscal Year	State Appropriation (Unrestricted) (1)	Academic CH	Technical CH	Continuing Education CH	Total Funded CH	State Appropriation per Funded CH
2019*	\$ 60,710,669	14,735,065	4,961,424	1,843,055	21,539,544	\$ 2.82
2018*	60,712,276	15,688,714	4,844,368	2,019,420	22,552,502	2.69
2017*	63,177,743	15,443,656	5,298,512	2,296,406	23,038,574	2.74
2016*	63,177,743	15,527,528	5,762,048	2,146,857	23,436,433	2.70
2015*	62,190,430	15,873,248	6,122,448	2,290,228	24,285,924	2.56
2014*	62,190,430	15,931,744	5,822,268	1,980,830	23,734,842	2.62
2013	70,014,003	16,237,296	5,744,810	1,933,271	23,915,377	2.93
2012	70,232,038	17,354,256	5,822,072	1,798,940	24,975,268	2.81
2011	65,957,104	17,802,080	5,924,078	1,914,445	25,640,603	2.57
2010	65,791,457	16,652,752	5,680,164	1,880,857	24,213,773	2.72

<sup>1</sup> State funded contact hour appropriation as it appears in schedule 6a.

Note: State funded contact hours for Fall, Spring, and Summer of the current fiscal year.

\*Formula funding methodology changed beginning in Fiscal Year 2014.

Source: HCC Certified Reports (CBM004 and CBM00C).

HOUSTON COMMUNITY COLLEGE SYSTEM  
STATE APPROPRIATION PER STUDENT SUCCESS POINT (SSP) - ANNUALIZED  
LAST FIVE FISCAL YEARS  
(Unaudited)

Table 6d

Fiscal Year	SSP State Appropriation (Unrestricted) <sup>1</sup>	3-Year Weighted Average SSP <sup>2</sup>	Annual Appropriation per SSP
2019	\$ 6,741,962	78,597	\$ 85.78
2018	6,741,962	78,597	85.78
2017	6,484,471	75,145	86.29
2016	6,484,471	75,145	86.29
2015	6,458,505	69,775	92.56
2014	6,458,505	69,775	92.56
2013	-	-	-
2012	-	-	-
2011	-	-	-
2010	-	-	-

<sup>1</sup> State funded student success point appropriation as it appears in table 6a.  
Source: Obtained from THECB Ten-Pay Schedules.

HOUSTON COMMUNITY COLLEGE SYSTEM  
STUDENT SUCCESS POINTS (SSP)  
LAST TEN FISCAL YEARS  
(Unaudited)

Table 6e

**Student Success Point (Weighted)**

<b>Elements</b>	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Math Readiness	4,928	3,255	3,250	2,738	2,376	2,395	3,440	7,176	5,000	-
Read Readiness	1,775	1,316	1,384	983	1,115	1,579	2,517	2,253	1,846	-
Write Readiness	2,161	1,258	1,295	1,087	941	984	1,412	1,963	1,620	-
Students Who Pass FCL Math Course	7,815	7,795	7,968	9,383	8,599	7,748	7,484	9,044	7,288	-
Students Who Pass FCL Read Course	8,108	8,127	7,452	7,279	7,038	7,598	8,060	7,251	1,294	-
Students Who Pass FCL Write Course	6,431	6,514	6,311	6,355	6,452	6,540	6,210	2,418	744	-
Students Who Complete 15 SCH	15,709	15,574	15,823	16,241	15,669	15,326	15,657	17,330	18,885	-
Students Who Complete 30 SCH	10,130	9,902	10,142	10,130	9,696	9,566	9,828	10,691	10,846	-
Student Transfers to a 4-Yr Inst	8,452	8,700	8,996	8,962	8,736	9,044	8,856	4,050	3,622	-
Degrees, CCCs, or Certs (Undup)	14,392	14,486	15,466	15,504	11,690	11,480	10,998	9,990	8,770	-
Degrees or Certs in Critical Fields	2,176	2,385	2,498	2,178	2,124	2,174	2,043	2,030	1,915	-
<b>Total Annual Student Success Points</b>	<b>82,075</b>	<b>79,312</b>	<b>80,583</b>	<b>80,840</b>	<b>74,436</b>	<b>74,433</b>	<b>76,504</b>	<b>74,195</b>	<b>61,829</b>	<b>-</b>

Note: These are the student success points that are the basis of the 3-year rolling average for the calculation of the biennium allocation of state funding for student success. For instance fiscal years 2016, 2015, and 2014 form the basis for the weighted 3-year rolling average that is used for the allocation of state funds for the 2018-2019 biennium.

Source: Obtained from THECB Ten-Pay Schedules, Accountability System for FY 2017 & FY 2018.

**HOUSTON COMMUNITY COLLEGE SYSTEM  
PRINCIPAL TAXPAYERS  
(Taxable Value)  
LAST TEN FISCAL YEARS  
(Unaudited)**

Table 7

Taxpayer	Industry	Taxable Assessed Value (TAV) by Tax Year									
		2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Centerpoint Energy Inc	Utility	\$ 1,737,031,171	\$ 989,802,949	\$ 1,644,000,381	\$ 1,626,152,344	\$ 1,418,862,516	\$ 1,362,799,831	\$ 1,382,750,044	\$ 1,153,697,187	\$ 1,119,456,415	\$ 1,122,000,954
BSREP IHC-4HC*	Real Estate	786,877,979	797,862,507	737,834,871	986,583,880	792,215,117	917,216,307	831,337,622	716,169,026	1,129,509,857	1,027,978,140
Cullen Allen Holdings Lp	Real Estate	-	-	-	-	-	-	-	-	-	632,088,821
Hines Interests Ltd Ptnrsp	Real Estate	-	-	-	-	-	-	-	1,163,749,277	967,638,791	855,622,627
AT&T Mobility LLC	Utility	-	-	-	-	-	-	-	318,206,364	446,070,581	499,096,180
Tpg 2101 Citywest 1 & 2 Lp	Real Estate	-	-	-	-	-	-	-	-	497,060,529	469,096,180
Chevron Chemical Co	Oil & Gas	962,752,120	1,017,824,620	1,141,470,547	1,179,883,292	1,084,645,391	1,066,441,442	982,653,385	724,298,902	627,685,117	469,387,624
Anheuser Busch Inc	Brewery	-	-	-	-	-	-	-	357,792,263	366,424,086	404,399,350
Houston Refining	Oil & Gas	-	-	-	-	-	-	-	-	-	-
Valero Energy Corp	Oil & Gas	695,743,538	-	721,980,186	591,345,920	-	418,086,374	426,028,458	363,437,432	-	-
Teachers Insurance	Insurance	-	-	-	-	-	-	-	-	-	-
Shell Oil Co	Oil & Gas	-	-	-	-	492,784,337	-	-	334,605,330	331,875,591	-
HG Galleria I II III LP	Real Estate	619,381,877	635,939,145	679,040,894	687,114,648	508,214,845	475,503,575	385,054,953	363,274,752	319,442,735	315,388,094
Exxon Mobil Corp	Oil & Gas	-	-	-	-	-	-	-	317,979,103	305,020,231	305,281,064
1000 Louisiana LP	Real Estate	-	476,007,332	516,382,503	551,072,650	499,000,000	504,063,645	426,551,193	-	-	-
Texas Tower LTD	Real Estate	-	483,158,521	501,098,531	547,808,760	-	562,735,621	409,839,382	-	-	-
Four Oaks Place Operating LP	Real Estate	-	-	-	-	-	464,133,747	401,202,733	-	-	-
BGHOLDCO LLC	Real Estate	-	-	-	-	-	444,102,836	398,000,000	-	-	-
BUSYCON Properties LLC	Real Estate	480,421,218	484,510,539	512,787,835	-	505,450,307	536,989,676	453,269,103	-	-	-
PKY City West 1-4, POC, San*	Real Estate	843,913,327	852,336,214	715,139,095	1,188,888,678	1,115,262,076	-	-	-	-	-
One, Two & Three Allen Center CO LLC	Real Estate	788,054,141	785,887,656	857,457,136	924,339,870	866,158,501	-	-	-	-	-
Flint Hill Resources Houston	Oil & Gas	-	459,371,730	-	-	-	-	-	-	-	-
GWP (Greenway Plaza)	Real Estate	820,850,180	-	-	-	-	-	-	-	-	-
Finger FSC	Real Estate	510,735,740	-	-	-	-	-	-	-	-	-
Southwestern Bell & ATT Mobility	Utility	-	-	-	553,335,269	476,957,952	-	-	-	-	-
<b>Totals</b>		<b>\$ 8,245,761,291</b>	<b>\$ 6,982,701,213</b>	<b>\$ 8,027,191,979</b>	<b>\$ 8,836,525,311</b>	<b>\$ 7,759,551,042</b>	<b>\$ 6,752,073,054</b>	<b>\$ 6,096,686,873</b>	<b>\$ 5,813,209,636</b>	<b>\$ 6,110,183,933</b>	<b>\$ 6,100,339,034</b>
<b>Total Taxable Assessed Value</b>		<b>\$ 203,271,455,743</b>	<b>\$ 200,395,261,824</b>	<b>\$ 193,736,207,160</b>	<b>\$ 179,170,817,704</b>	<b>\$ 162,877,832,186</b>	<b>\$ 146,520,086,977</b>	<b>\$ 132,984,326,927</b>	<b>\$ 127,412,325,392</b>	<b>\$ 125,975,478,092</b>	<b>\$ 130,429,808,430</b>

Source: Local County Appraisal District

\*Note: In prior years BSREP was Crescent Real Estate and PKY City West was Cousins Greenway & POC.

HOUSTON COMMUNITY COLLEGE SYSTEM  
 PRINCIPAL TAXPAYERS - CONTINUED  
 (Taxable Value)  
 LAST TEN FISCAL YEARS  
 (Unaudited)

Table 7

Taxpayer	Industry	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
		% of Taxable Assessed Value (TAV) by Tax Year									
Centerpoint Energy Inc	Utility	0.85%	0.49%	0.85%	0.91%	0.87%	0.93%	1.04%	0.91%	0.89%	0.86%
BSREP IHC-4HC*	Real Estate	0.39%	0.40%	0.38%	0.55%	0.49%	0.63%	0.63%	0.56%	0.90%	0.79%
Cullen Allen Holdings Lp	Real Estate	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.48%
Hines Interests Ltd Ptnrsp	Real Estate	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.91%	0.77%	0.66%
AT&T Mobility LLC	Utility	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.25%	0.35%	0.38%
Tpg 2101 Citywest 1 & 2 Lp	Real Estate	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.39%	0.36%
Chevron Chemical Co	Oil & Gas	0.47%	0.51%	0.59%	0.66%	0.67%	0.73%	0.74%	0.57%	0.50%	0.36%
Anheuser Busch Inc	Brewery	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.28%	0.29%	0.31%
Houston Refining	Oil & Gas	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Valero Energy Corp	Oil & Gas	0.34%	0.00%	0.37%	0.33%	0.00%	0.29%	0.32%	0.29%	0.00%	0.00%
Teachers Insurance	Insurance	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Shell Oil Co	Oil & Gas	0.00%	0.00%	0.00%	0.00%	0.30%	0.00%	0.00%	0.26%	0.26%	0.00%
HG Galleria I II III LP	Real Estate	0.30%	0.32%	0.35%	0.38%	0.31%	0.32%	0.29%	0.29%	0.25%	0.24%
Exxon Mobil Corp	Oil & Gas	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.25%	0.24%	0.23%
1000 Louisiana LP	Real Estate	0.00%	0.24%	0.27%	0.31%	0.31%	0.34%	0.32%	0.00%	0.00%	0.00%
Texas Tower LTD	Real Estate	0.00%	0.24%	0.26%	0.31%	0.00%	0.38%	0.31%	0.00%	0.00%	0.00%
Four Oaks Place Operating LP	Real Estate	0.00%	0.00%	0.00%	0.00%	0.00%	0.32%	0.30%	0.00%	0.00%	0.00%
BG HOLDCO LLC	Real Estate	0.00%	0.00%	0.00%	0.00%	0.00%	0.30%	0.30%	0.00%	0.00%	0.00%
BUSYCON Properties LLC	Real Estate	0.24%	0.24%	0.26%	0.00%	0.31%	0.37%	0.34%	0.00%	0.00%	0.00%
PKY City West 1-4, POC, San*	Real Estate	0.42%	0.43%	0.37%	0.66%	0.68%	0.00%	0.00%	0.00%	0.00%	0.00%
One, Two & Three Allen Center CO LLC	Real Estate	0.39%	0.39%	0.44%	0.52%	0.53%	0.00%	0.00%	0.00%	0.00%	0.00%
Flint Hill Resources Houston	Oil & Gas	0.00%	0.23%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
GWP (Greenway Plaza)	Real Estate	0.40%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Finger FSC	Real Estate	0.25%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Southwestern Bell & ATT Mobility	Utility	0.00%	0.00%	0.00%	0.31%	0.29%	0.00%	0.00%	0.00%	0.00%	0.00%
Totals		4.06%	3.48%	4.14%	4.93%	4.76%	4.61%	4.58%	4.56%	4.85%	4.68%

Source: Local County Appraisal District

\*Note: In prior years BSREP was Crescent Real Estate and PKY City West was Cousins Greenway & POC.

HOUSTON COMMUNITY COLLEGE SYSTEM  
PROPERTY TAX LEVIES AND COLLECTIONS  
LAST TEN TAX YEARS  
(Unaudited)

Table 8

Fiscal Year	Tax Rate Per \$100	Tax Base (Assessed Value)	Total Tax Levy	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years *	Total Collections to Date	
				Actual Collections per AFR	% of Levy		Amount	% of Levy
2019	\$ 0.100263	\$ 203,271,455,743	\$ 203,806,060	\$ 198,595,648	97.44%	\$ 4,708,437	\$ 203,304,085	99.75%
2018	0.100263	200,395,261,824	200,922,301	196,382,374	97.74%	4,764,905	201,147,279	100.11%
2017	0.100263	193,736,207,160	194,245,733	192,672,263	99.19%	3,977,128	196,649,391	101.24%
2016	0.101942	179,170,817,704	182,650,315	179,069,265	98.04%	1,487,978	180,557,243	98.85%
2015	0.106890	162,877,832,186	174,100,115	173,168,964	99.47%	3,471,135	176,640,099	101.46%
2014	0.097173	146,520,086,977	142,377,964	141,871,329	99.64%	3,233,799	145,105,128	101.92%
2013	0.097173	132,984,326,927	129,224,860	126,900,573	98.20%	3,135,356	130,035,929	100.63%
2012	0.097222	127,412,325,392	123,872,811	121,247,023	97.88%	4,017,805	125,264,828	101.12%
2011	0.092220	125,975,478,092	116,179,580	113,187,929	97.42%	3,994,879	117,182,808	100.86%
2010	0.092220	130,429,808,430	120,614,601	116,730,716	96.78%	3,995,418	120,726,134	100.09%

\* "Collection in Subsequent Years" includes penalties and interest.

Source: Local Tax Assessor/Collectors and District records.

**HOUSTON COMMUNITY COLLEGE SYSTEM  
RATIOS OF OUTSTANDING DEBT  
LAST TEN FISCAL YEARS  
(Unaudited)**

Table 9

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
General Obligation Bonds	\$ 497,085,140	\$ 511,685,732	\$ 524,978,521	\$ 540,213,663	\$ 552,429,370	\$ 568,407,151	\$ 578,139,157	\$ 126,509,613	\$ 122,965,813	\$ 128,335,993
Maintenance Tax Bonds	30,747,737	33,873,578	34,717,506							
Notes	90,038,192	97,208,764	106,793,553	151,938,465	160,781,387	168,926,738	177,016,887	184,862,037	169,764,659	129,970,994
Less: Funds Restricted for Debt Service	-	-	-	-	-	-	-	-	-	-
<b>Net General Bonded Debt</b>	<b>617,871,070</b>	<b>642,768,073</b>	<b>666,489,579</b>	<b>692,152,128</b>	<b>713,210,757</b>	<b>737,333,889</b>	<b>755,156,045</b>	<b>311,371,650</b>	<b>292,730,472</b>	<b>258,306,987</b>
Per Capita	\$ 250.73	\$ 260.83	\$ 268.21	\$ 284.54	\$ 293.98	\$ 319.47	\$ 333.59	\$ 139.69	\$ 134.63	\$ 118.77
Per FTSE	\$ 17,048.48	\$ 17,117.20	\$ 17,509.25	\$ 17,969.57	\$ 17,955.51	\$ 19,020.12	\$ 19,383.85	\$ 19,291.92	\$ 19,002.32	\$ 16,236.53
As a Percentage of Taxable Assessed Value	0.30%	0.32%	0.34%	0.39%	0.44%	0.50%	0.57%	0.24%	0.23%	0.20%
Revenue Bonds	\$ 191,380,394	\$ 217,121,333	\$ 240,546,861	\$ 261,350,284	\$ 288,802,667	\$ 306,455,246	\$ 323,322,694	\$ 342,071,187	\$ 341,086,330	\$ 356,162,958
Notes	18,793,421	4,428,497	2,395,310	673,299	1,346,598	-	-	-	691,584	1,383,167
Capital Lease Obligations	-	-	-	-	-	-	-	-	1,304,824	3,914,472
<b>Total Outstanding Debt</b>	<b>\$ 828,044,885</b>	<b>\$ 864,317,903</b>	<b>\$ 909,431,751</b>	<b>\$ 954,175,711</b>	<b>\$ 1,003,360,022</b>	<b>\$ 1,043,789,134</b>	<b>\$ 1,078,478,739</b>	<b>\$ 653,442,837</b>	<b>\$ 635,813,210</b>	<b>\$ 619,767,584</b>
Per Capita	336	351	366	392	414	452	476	293	292	285
Per FTSE	22,848	23,017	23,892	24,772	25,260	26,925	27,683	16,140	15,405	15,909
As a Percentage of Taxable Assessed Value	0.41%	0.43%	0.47%	0.53%	0.62%	0.71%	0.81%	0.51%	0.50%	0.48%

\*In order to provide consistency with other reporting, HCC has elected to adopt the THECB standard methodology for calculating FTSE that is used for benchmarking and HCC's internal KPI's (Key Performance Indicator). Prior year calculations have been restated to reflect this change. The FTSE ratios calculated and published by THECB are based on CBM submissions and are calculated as follows: Fiscal Year FTSE (Full-Time Student Equivalent) is equal to the sum of state funded (Fall SCH [Semester Credit Hours] + Spring SCH + Summer SCH for the current fiscal year, or 30 SCH) plus state funded continuing education (Fall CH (Contact Hours) + Spring CH + Summer CH for the current fiscal year, or 900 CH).

Source: HCC Certified Reports (CBM004 & CBM00C).

**HOUSTON COMMUNITY COLLEGE SYSTEM  
LEGAL DEBT MARGIN INFORMATION  
LAST TEN FISCAL YEARS  
(Unaudited)**

Table 10

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
TAXABLE ASSESSED VALUE	\$ 203,271,455,743	\$ 200,395,261,824	\$ 193,736,207,160	\$ 179,170,817,704	\$ 162,877,832,166
GENERAL OBLIGATION BONDS:					
Statutory Tax Levy Limit for Debt Service	1,016,357,279	1,001,976,309	968,681,036	895,854,089	814,389,161
Less: Funds Restricted for Repayment of General Obligation Bonds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Net General Obligation Debt	1,016,357,279	1,001,976,309	968,681,036	895,854,089	814,389,161
Current Year Debt Service Requirements	<u>36,494,619</u>	<u>33,463,594</u>	<u>33,832,124</u>	<u>32,100,119</u>	<u>31,529,519</u>
Excess of Statutory Limit for Debt Service over Current Requirements	<u>\$ 979,862,660</u>	<u>\$ 968,512,715</u>	<u>\$ 934,848,912</u>	<u>\$ 863,753,970</u>	<u>\$ 782,859,642</u>
Net Current Requirements as a % of Statutory Limit	3.59%	3.34%	3.49%	3.58%	3.87%
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
TAXABLE ASSESSED VALUE	\$ 146,520,086,977	\$ 132,984,326,927	\$ 127,412,325,392	\$ 125,975,478,092	\$ 130,429,808,430
GENERAL OBLIGATION BONDS:					
Statutory Tax Levy Limit for Debt Service	735,016,644	664,921,635	637,061,627	629,877,207	652,149,042
Less: Funds Restricted for Repayment of General Obligation Bonds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Net General Obligation Debt	735,016,644	664,921,635	637,061,627	629,877,207	652,149,042
Current Year Debt Service Requirements	<u>28,852,217</u>	<u>22,600,842</u>	<u>18,904,514</u>	<u>20,616,717</u>	<u>16,768,273</u>
Excess of Statutory Limit for Debt Service over Current Requirements	<u>\$ 706,164,427</u>	<u>\$ 642,320,793</u>	<u>\$ 618,157,113</u>	<u>\$ 609,260,490</u>	<u>\$ 635,380,769</u>
Net Current Requirements as a % of Statutory Limit	3.93%	3.40%	2.97%	3.27%	2.57%

Note: Texas Education Code Section 130.122 limits the debt service tax levy of community colleges to \$0.50 per hundred dollars taxable assessed valuation.

Net assessed valuation has been restated for prior years to conform to property tax footnote in AFR.

HOUSTON COMMUNITY COLLEGE SYSTEM  
 PLEDGED REVENUE COVERAGE  
 LAST TEN FISCAL YEARS  
 (Unaudited)

Table 11

Fiscal Year	Pledged Revenues										
	Total	Tuition	Technology Fee	Registration Fees	Laboratory Fees	Continuing Education Fees	Other Fees	Interest Income	Vending Commission	Bookstore Commission	Rental Revenue
2019	\$ 88,442,146	\$ 16,259,037	\$ 7,552,392	\$ 32,362,392	\$ 1,461,786	\$ 9,166,992	\$ 7,912,994	\$ 4,939,438	\$ 115,500	\$ 2,168,389	\$ 6,503,226
2018	84,544,426	15,539,949	5,432,664	33,919,617	1,680,583	9,336,141	7,340,130	3,237,953	126,000	2,367,482	5,563,907
2017	86,675,262	15,524,223	5,424,763	33,979,683	1,690,989	10,690,264	7,225,312	2,012,777	132,930	2,796,712	7,197,608
2016	84,059,232	15,564,359	5,466,412	34,302,596	1,709,948	10,583,589	7,140,293	1,109,495	135,680	1,915,983	6,130,877
2015	98,017,475	11,646,452	5,639,728	51,188,252	1,674,943	11,523,728	7,601,377	543,991	140,275	2,623,595	5,435,135
2014	94,161,412	11,442,938	5,614,551	50,458,748	1,779,425	9,093,829	7,066,095	432,133	201,162	2,884,880	5,187,651
2013	94,956,856	11,731,661	5,747,728	50,940,723	1,828,481	9,136,539	7,031,565	432,022	129,999	2,786,137	5,192,001
2012	98,214,059	12,206,115	5,998,853	53,283,093	1,974,359	9,330,828	7,234,999	303,384	151,823	2,864,738	4,865,866
2011	89,655,895	10,549,582	4,930,929	48,356,423	2,085,644	8,614,733	6,777,965	260,462	175,322	2,693,341	5,211,494
2010	81,401,974	9,587,926	4,543,879	43,168,485	3,393,362	8,699,410	4,250,888	405,337	167,930	2,166,708	5,018,051

Fiscal Year	Debt Service Requirements			Coverage Ratio
	Principal	Interest	Total	
2019	\$ 17,035,000	\$ 8,636,030	\$ 25,671,030	3.45
2018	17,630,000	10,113,836	27,743,836	3.05
2017	18,175,000	9,686,993	27,861,993	3.11
2016	15,640,000	8,560,997	24,200,997	3.47
2015	12,545,000	8,421,828	20,966,828	4.67
2014	11,320,000	9,658,049	20,978,049	4.49
2013	13,435,000	10,254,199	23,689,199	4.01
2012	12,715,000	10,579,416	23,294,416	4.22
2011	11,335,000	10,712,486	22,047,486	4.07
2010	10,770,000	10,325,724	21,095,724	3.86

HOUSTON COMMUNITY COLLEGE SYSTEM  
 DEMOGRAPHIC AND ECONOMIC STATISTICS - TAXING DISTRICT  
 LAST TEN FISCAL YEARS  
 (Unaudited)

Table 12

Calendar Year	Service Area Population	Service Area Personal Income	Service Area Personal Income Per Capita	Service Area Unemployment Rate
2018	2,464,333	\$ 92,141,410,870	\$ 37,390	3.0%
2017	2,484,931	88,789,069,561	35,731	4.0%
2016	2,432,543	81,234,773,485	33,395	3.3%
2015	2,426,057	75,280,548,710	31,030	3.4%
2014	2,308,004	68,275,374,328	29,582	3.7%
2013	2,263,741	62,320,789,730	27,530	5.4%
2012	2,228,995	64,750,075,755	29,049	4.8%
2011	2,174,361	61,960,591,056	28,496	5.1%
2010	2,174,919	60,334,427,979	27,741	5.1%
2009	2,140,484	56,172,721,612	26,243	5.1%

**Sources:** HCC Service Area Demographics Report.

HOUSTON COMMUNITY COLLEGE SYSTEM  
 PRINCIPAL EMPLOYERS  
 LAST TEN FISCAL YEARS  
 (Unaudited)

Table 13

**Houston-Sugar Land-Baytown  
 MSA (Austin, Brazoria,  
 Chambers, Fort Bend, Galveston,  
 Harris, Liberty Montgomery, San  
 Jacinto, Waller)**

	June 2019	June 2018	June 2017	June 2016	July 2015	June 2014	June 2013	June 2012	June 2011	June 2010
<b>Number of Employees</b>										
Trade, Transportation, & Utilities	630,400	629,200	603,200	615,300	611,900	594,900	564,300	547,800	527,800	515,800
Professional & Business Services	516,400	523,000	486,100	458,600	473,700	466,800	429,700	410,900	383,900	363,600
Government	417,700	409,600	413,600	387,800	365,500	373,900	364,500	359,300	372,400	381,800
Education & Health Services	402,000	386,200	390,500	383,400	366,800	347,400	335,900	327,000	314,700	308,900
Mining and Logging/Construction	317,200	316,200	301,400	302,600	317,400	312,000	298,100	279,600	261,000	252,800
Manufacturing	240,900	228,200	234,100	231,500	245,300	255,300	252,800	244,600	228,200	217,500
Leisure & Hospitality	341,100	332,300	330,700	327,800	305,800	294,100	277,500	264,300	250,400	241,100
Financial Activities	166,600	163,800	156,200	154,500	152,100	148,100	143,200	141,000	137,100	136,200
Other Services	122,200	111,700	113,200	109,200	108,600	105,500	100,300	96,900	93,600	92,700
Information	30,700	31,400	32,200	31,200	32,900	33,300	32,700	31,500	31,900	32,500
<b>Total</b>	<b>3,185,200</b>	<b>3,131,600</b>	<b>3,061,200</b>	<b>3,001,900</b>	<b>2,980,000</b>	<b>2,931,300</b>	<b>2,799,000</b>	<b>2,702,900</b>	<b>2,601,000</b>	<b>2,542,900</b>

<b>Percent of Employees</b>										
Trade, Transportation, & Utilities	19.8%	20.1%	19.7%	20.5%	20.5%	20.3%	20.2%	20.3%	20.3%	20.3%
Professional & Business Services	16.2%	16.7%	15.9%	15.3%	15.9%	15.9%	15.4%	15.2%	14.8%	14.3%
Government	13.1%	13.1%	13.5%	12.9%	12.3%	12.8%	13.0%	13.3%	14.3%	15.0%
Education & Health Services	12.6%	12.3%	12.8%	12.8%	12.3%	11.9%	12.0%	12.1%	12.1%	12.1%
Mining and Logging/Construction	10.0%	10.1%	9.8%	10.1%	10.7%	10.6%	10.7%	10.3%	10.0%	9.9%
Manufacturing	7.6%	7.3%	7.6%	7.7%	8.2%	8.7%	9.0%	9.0%	8.8%	8.6%
Leisure & Hospitality	10.7%	10.6%	10.8%	10.9%	10.3%	10.0%	9.9%	9.8%	9.6%	9.5%
Financial Activities	5.2%	5.2%	5.1%	5.1%	5.1%	5.1%	5.1%	5.2%	5.3%	5.4%
Other Services	3.8%	3.6%	3.7%	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%	3.6%
Information	1.0%	1.0%	1.1%	1.0%	1.1%	1.1%	1.2%	1.2%	1.2%	1.3%
<b>Total</b>	<b>100.0%</b>									

source: U.S. Bureau of Labor Statistics - <https://www.bls.gov/home.htm>

HOUSTON COMMUNITY COLLEGE SYSTEM  
 FACULTY, STAFF AND ADMINISTRATORS STATISTICS  
 LAST TEN FISCAL YEARS  
 (Unaudited)

Table 14

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
<b>Faculty</b>										
Full-Time	881	849	830	818	759	759	789	809	910	848
Part-Time	1,601	1,774	1,545	1,717	1,687	1,742	1,715	2,781	2,921	2,345
Total	<u>2,482</u>	<u>2,623</u>	<u>2,375</u>	<u>2,535</u>	<u>2,446</u>	<u>2,501</u>	<u>2,504</u>	<u>3,590</u>	<u>3,831</u>	<u>3,193</u>
<b>Percent</b>										
Full-Time	35.5%	32.4%	34.9%	32.3%	31.0%	30.3%	31.5%	22.5%	23.8%	26.6%
Part-Time	64.5%	67.6%	65.1%	67.7%	69.0%	69.7%	68.5%	77.5%	76.2%	73.4%
<b>Staff and Administrators</b>										
Full-Time	1,636	1,585	1,528	1,465	1,385	1,323	1,350	1,327	1,272	1,185
Part-Time	1,049	1,061	1,160	1,432	1,170	1,413	1,443	1,088	1,169	1,323
Total	<u>2,685</u>	<u>2,646</u>	<u>2,688</u>	<u>2,897</u>	<u>2,555</u>	<u>2,736</u>	<u>2,793</u>	<u>2,415</u>	<u>2,441</u>	<u>2,508</u>
<b>Percent</b>										
Full-Time	60.9%	59.9%	56.8%	50.6%	54.2%	48.4%	48.3%	54.9%	52.1%	47.2%
Part-Time	39.1%	40.1%	43.2%	49.4%	45.8%	51.6%	51.7%	45.1%	47.9%	52.8%
<b>Students per Full-Time*</b>										
Faculty	61.6	66.1	66.3	65.4	72.5	72.0	71.0	71.2	62.2	57.1
Staff and Administrators	33.2	35.4	36.0	36.5	39.7	41.3	41.5	43.4	44.5	40.9
<b>Average Annual</b>										
Faculty Salary*	\$ 73,116	\$ 73,136	\$ 70,528	\$ 68,504	\$ 65,038	\$ 64,962	\$ 63,366	\$ 63,473	\$ 62,533	\$ 62,833

\*All figures are calculated from the CBM001&00A reports combined, see tables 16 and 17.

For FY 2019, the decrease in average annual faculty salary relates to faculty attrition. During FY 2016, 2017 and 2018, faculty salaries increased in response to a market-based compensation study.

Source: IPEDS Human Resources Survey, as of November 1, 20XX.

HOUSTON COMMUNITY COLLEGE SYSTEM  
ANNUAL STUDENT ENROLLMENT TRENDS BY RESIDENCY CODE  
SEMESTER CREDIT HOUR (SCH)  
LAST TEN FISCAL YEARS  
(Unaudited)

Table 15

	<b>FY 2019</b>	<b>FY 2018</b>	<b>FY 2017</b>	<b>FY 2016</b>	<b>FY 2015</b>	<b>FY 2014</b>	<b>FY 2013</b>	<b>FY 2012</b>	<b>FY 2011</b>	<b>FY 2010</b>
In-District	50,285	51,590	53,400	54,157	56,532	57,203	57,755	59,567	58,896	55,721
Out-of-District	23,314	21,765	21,665	20,869	21,701	21,369	21,267	22,674	23,264	22,889
Out-of-State	8,687	9,671	10,365	10,270	9,684	8,871	9,137	10,101	10,389	9,671
Other/Unknown	6	8	17	9	85	17	69	14	12	14
<b>Unduplicated Enrollment</b>	<b>82,292</b>	<b>83,034</b>	<b>85,447</b>	<b>85,305</b>	<b>88,002</b>	<b>87,460</b>	<b>88,228</b>	<b>92,356</b>	<b>92,561</b>	<b>88,295</b>

ANNUAL STUDENT ENROLLMENT TRENDS BY CAREER TYPE  
LAST TEN FISCAL YEARS

	<b>FY 2019</b>	<b>FY 2018</b>	<b>FY 2017</b>	<b>FY 2016</b>	<b>FY 2015</b>	<b>FY 2014</b>	<b>FY 2013</b>	<b>FY 2012</b>	<b>FY 2011</b>	<b>FY 2010</b>
Semester Credit Hour (SCH)	82,292	83,034	85,447	85,305	88,002	87,460	88,228	92,356	92,561	88,295
Funded Continuing Education Unit (CEU)	13,151	14,480	16,701	16,753	18,170	16,344	17,901	16,971	17,134	18,197
Non-Funded Continuing Education	6,811	5,172	3,147	2,344	2,214	4,708	1,116	1,265	1,673	2,502
Adult HS ABE/ESL/GED	3,431	6,128	11,286	11,681	9,167	7,992	9,749	10,062	10,801	11,732
<b>Unduplicated Enrollment *</b>	<b>103,488</b>	<b>106,470</b>	<b>114,430</b>	<b>114,288</b>	<b>115,575</b>	<b>113,689</b>	<b>115,600</b>	<b>119,196</b>	<b>120,804</b>	<b>118,844</b>

Note:

\* The unduplicated enrollment total cannot be arrived at by summing the columns. This is because students may take courses in multiple career types.

Source: HCC OIR DataMart Files, end-of-term, FY 2010 - FY 2019.

**HOUSTON COMMUNITY COLLEGE SYSTEM  
ENROLLMENT DETAILS  
LAST TEN FISCAL YEARS  
(Unaudited)**

Table 16

	Fall 2018		Fall 2017		Fall 2016		Fall 2015		Fall 2014		Fall 2013		Fall 2012		Fall 2011		Fall 2010		Fall 2009		
	Number	Percent																			
<b>Student Classification**</b>																					
Freshman	28,654	52.8%	29,322	52.2%	27,849	50.6%	26,282	49.2%	27,504	50.0%	28,599	52.4%	29,955	53.5%	32,304	56.1%	32,660	57.7%	28,401	58.7%	
Sophomore	14,533	26.8%	15,287	27.2%	14,264	25.9%	14,734	27.6%	14,681	26.7%	14,414	26.4%	14,380	25.7%	14,529	25.2%	13,447	23.8%	10,695	22.1%	
Unclassified	5,108	9.4%	5,137	9.2%	5,078	9.2%	5,221	9.8%	5,213	9.5%	4,904	9.0%	4,677	8.3%	4,437	7.7%	3,390	6.0%	2,374	4.9%	
Assoc. Degree	15	0.0%	14	0.0%	15	0.0%	21	0.0%	30	0.1%	37	0.1%	53	0.1%	64	0.1%	120	0.2%	165	0.3%	
BS & Above	53	0.1%	57	0.1%	57	0.1%	117	0.2%	118	0.2%	152	0.3%	171	0.3%	279	0.5%	361	0.6%	514	1.1%	
Continuing Ed. Only	5,884	10.8%	6,318	11.3%	7,791	14.2%	7,093	13.3%	7,495	13.6%	6,515	11.9%	6,778	12.1%	6,002	10.4%	6,614	11.7%	6,256	12.9%	
<b>Total</b>	<b>54,247</b>	<b>100.0%</b>	<b>56,135</b>	<b>100.0%</b>	<b>55,054</b>	<b>100.0%</b>	<b>53,468</b>	<b>100.0%</b>	<b>55,041</b>	<b>100.0%</b>	<b>54,621</b>	<b>100.0%</b>	<b>56,014</b>	<b>100.0%</b>	<b>57,615</b>	<b>100.0%</b>	<b>56,592</b>	<b>100.0%</b>	<b>48,405</b>	<b>100.0%</b>	
<b>Semester Hour Load**</b>																					
Less than 3	822	1.5%	888	1.6%	506	0.9%	548	1.0%	650	1.2%	652	1.2%	660	1.2%	835	1.4%	748	1.3%	624	1.3%	
3-5 semester hrs	14,210	26.2%	13,983	24.9%	13,975	25.4%	12,312	23.0%	12,503	22.7%	12,363	22.6%	13,116	23.4%	13,153	22.8%	13,516	23.9%	10,755	22.2%	
6-8 Semester hrs	14,305	26.4%	14,796	26.4%	13,846	25.1%	13,712	25.6%	14,009	25.5%	13,915	25.5%	13,433	24.0%	14,622	25.4%	13,781	24.4%	11,575	23.9%	
9-11 semester hrs	9,741	17.9%	10,092	18.0%	9,348	17.0%	9,694	18.1%	9,791	17.8%	9,717	17.8%	9,999	17.9%	10,856	18.8%	10,359	18.3%	8,750	18.1%	
12-14 semester hrs	7,986	14.7%	8,708	15.5%	8,264	15.0%	8,787	16.4%	9,103	16.5%	9,933	18.2%	10,438	18.6%	10,645	18.5%	9,958	17.6%	8,950	18.5%	
15-17 semester hrs	1,244	2.3%	1,257	2.2%	1,247	2.3%	1,205	2.3%	1,376	2.5%	1,381	2.5%	1,470	2.6%	1,364	2.4%	1,443	2.5%	1,341	2.8%	
18 & over	82	0.2%	93	0.2%	77	0.1%	117	0.2%	114	0.2%	145	0.3%	120	0.2%	138	0.2%	173	0.3%	154	0.3%	
Continuing Ed. Only	5,884	10.8%	6,318	11.3%	7,791	14.2%	7,093	13.3%	7,495	13.6%	6,515	11.9%	6,778	12.1%	6,002	10.4%	6,614	11.7%	6,256	12.9%	
<b>Total</b>	<b>54,274</b>	<b>100.0%</b>	<b>56,135</b>	<b>100.0%</b>	<b>55,054</b>	<b>100.0%</b>	<b>53,468</b>	<b>100.0%</b>	<b>55,041</b>	<b>100.0%</b>	<b>54,621</b>	<b>100.0%</b>	<b>56,014</b>	<b>100.0%</b>	<b>57,615</b>	<b>100.0%</b>	<b>56,592</b>	<b>100.0%</b>	<b>48,405</b>	<b>100.0%</b>	
Average course load	7.4 SCH		7.4 SCH		7.4 SCH		7.6 SCH		7.7 SCH		7.7 SCH		7.8 SCH		7.8 SCH		7.8 SCH		7.9 SCH		
<b>Tuition Status***</b>																					
Texas Resident (In-District)	29,123	53.7%	30,707	54.7%	29,745	54.0%	29,791	55.7%	31,296	56.9%	31,806	58.2%	32,735	58.4%	32,896	57.1%	31,267	55.2%	26,003	53.7%	
Texas Resident (Out-of-District)	13,186	24.3%	12,198	21.7%	11,053	20.1%	10,541	19.7%	10,603	19.3%	10,592	19.4%	10,821	19.3%	12,056	20.9%	12,298	21.7%	10,446	21.6%	
Non-Resident Tuition	5,824	10.7%	6,594	11.7%	6,151	11.2%	5,761	10.8%	5,234	9.5%	5,124	9.4%	5,302	9.5%	6,332	11.0%	6,170	10.9%	5,528	11.4%	
Tuition Waiver	257	0.5%	318	0.6%	314	0.6%	282	0.5%	413	0.8%	584	1.1%	378	0.7%	329	0.6%	243	0.4%	172	0.4%	
Continuing Ed. Only	5,884	10.8%	6,318	11.3%	7,791	14.2%	7,093	13.3%	7,495	13.6%	6,515	11.9%	6,778	12.1%	6,002	10.4%	6,614	11.7%	6,256	12.9%	
<b>Total</b>	<b>54,274</b>	<b>100.0%</b>	<b>56,135</b>	<b>100.0%</b>	<b>55,054</b>	<b>100.0%</b>	<b>53,468</b>	<b>100.0%</b>	<b>55,041</b>	<b>100.0%</b>	<b>54,621</b>	<b>100.0%</b>	<b>56,014</b>	<b>100.0%</b>	<b>57,615</b>	<b>100.0%</b>	<b>56,592</b>	<b>100.0%</b>	<b>48,405</b>	<b>100.0%</b>	

Notes: \* Data source is the CBM1&A report. Files were combined and unduplicated in favor of retaining SCH students. Students taking continuing education courses only are counted one time. SCH students taking SCH and CEU courses are counted one time as SCH. \*\* Data source same as above. SCH students taking SCH and CEU courses are counted one time as SCH. \*\*\* Data source same as above. Continuing education students are not classified as to residency status.

HOUSTON COMMUNITY COLLEGE SYSTEM  
STUDENT PROFILE  
LAST TEN FISCAL YEARS  
(Unaudited)

Table 17

Gender	Fall 2018		Fall 2017		Fall 2016		Fall 2015		Fall 2014		Fall 2013		Fall 2012		Fall 2011		Fall 2010		Fall 2009	
	Number	Percent																		
Female	30,284	55.8%	30,660	54.6%	29,532	53.6%	29,248	54.7%	30,007	54.5%	29,652	54.3%	30,881	55.1%	31,985	55.5%	30,865	54.5%	26,452	54.6%
Male	23,963	44.2%	25,475	45.4%	25,522	46.4%	24,220	45.3%	25,034	45.5%	24,969	45.7%	25,133	44.9%	25,630	44.5%	25,727	45.5%	21,953	45.4%
Total	54,247	100.0%	56,135	100.0%	55,054	100.0%	53,468	100.0%	55,041	100.0%	54,621	100.0%	56,014	100.0%	57,615	100.0%	56,592	100.0%	48,405	100.0%

Ethnic Origin	Fall 2018		Fall 2017		Fall 2016		Fall 2015		Fall 2014		Fall 2013		Fall 2012		Fall 2011		Fall 2010		Fall 2009	
	Number	Percent																		
African American	14,560	26.8%	15,199	27.1%	14,192	25.8%	14,695	27.5%	16,079	29.2%	15,631	28.6%	16,085	28.7%	17,346	30.1%	15,685	27.7%	11,558	23.9%
Hispanic	19,796	36.5%	19,674	35.0%	19,230	34.9%	18,336	34.3%	18,368	33.4%	18,346	33.6%	18,266	32.6%	17,812	30.9%	17,721	31.3%	14,160	29.3%
White	7,624	14.1%	8,364	14.9%	8,438	15.3%	8,781	16.4%	9,302	16.9%	9,564	17.5%	10,242	18.3%	10,912	18.9%	11,393	20.1%	9,506	19.6%
Asian	5,588	10.3%	5,676	10.1%	5,504	10.0%	5,341	10.0%	5,354	9.7%	5,542	10.1%	5,641	10.1%	6,107	10.6%	5,881	10.4%	4,832	10.0%
Native American	95	0.2%	93	0.2%	87	0.2%	104	0.2%	118	0.2%	118	0.2%	110	0.2%	131	0.2%	138	0.2%	121	0.2%
Foreign	4,947	9.1%	5,464	9.7%	5,257	9.5%	4,655	8.7%	4,040	7.3%	3,830	7.0%	3,884	6.9%	4,086	7.1%	4,270	7.5%	3,875	8.0%
Unknown	1,627	3.0%	1,665	3.0%	2,346	4.3%	1,556	2.9%	1,780	3.2%	1,590	2.9%	1,786	3.2%	1,221	2.1%	1,504	2.7%	4,353	9.0%
Total	54,237	100.0%	56,135	100.0%	55,054	100.0%	53,468	100.0%	55,041	100.0%	54,621	100.0%	56,014	100.0%	57,615	100.0%	56,592	100.0%	48,405	100.0%

Age	Fall 2018		Fall 2017		Fall 2016		Fall 2015		Fall 2014		Fall 2013		Fall 2012		Fall 2011		Fall 2010		Fall 2009	
	Number	Percent																		
Under 18	6,391	11.8%	5,788	10.3%	6,112	11.1%	4,283	8.0%	4,031	7.3%	3,962	7.3%	4,639	8.3%	2,908	5.0%	3,046	5.4%	1,886	3.9%
18 - 21	16,325	30.1%	17,018	30.3%	15,500	28.2%	14,982	28.0%	15,074	27.4%	16,041	29.4%	16,027	28.6%	17,222	29.9%	17,205	30.4%	15,275	31.6%
22 - 24	8,073	14.9%	8,636	15.4%	8,308	15.1%	8,562	16.0%	8,753	15.9%	8,849	16.2%	8,962	16.0%	9,760	16.9%	9,328	16.5%	8,303	17.2%
25 - 35	14,662	27.0%	15,757	28.1%	15,850	28.8%	15,997	29.9%	16,903	30.7%	15,741	28.8%	15,842	28.3%	17,194	29.8%	16,569	29.3%	14,186	29.3%
36 - 50	6,602	12.2%	6,792	12.1%	6,983	12.7%	7,154	13.4%	7,688	14.0%	7,477	13.7%	7,862	14.0%	8,055	14.0%	7,957	14.1%	6,749	13.9%
51 & Over	2,184	4.0%	2,139	3.8%	2,293	4.2%	2,482	4.6%	2,589	4.7%	2,531	4.6%	2,664	4.8%	2,464	4.3%	2,468	4.4%	1,967	4.1%
Unknown	10	0.0%	5	0.0%	8	0.0%	8	0.0%	3	0.0%	20	0.0%	18	0.0%	12	0.0%	19	0.0%	39	0.1%
Total	54,247	100.0%	56,135	100.0%	55,054	100.0%	53,468	100.0%	55,041	100.0%	54,621	100.0%	56,014	100.0%	57,615	100.0%	56,592	100.0%	48,405	100.0%

Average Age	26.4 *	26.5 *	26.8 *	26.8 *	27.4 *	27.7 *	27.4 *	27.4 *	27.4 *	27.3 *
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Note:  
\*Removed 'Unknown' age before calculating average.  
Source: Certified CBM004 & CBM00C.

HOUSTON COMMUNITY COLLEGE SYSTEM  
 FUNDABLE CONTACT HOURS  
 LAST TEN FISCAL YEARS  
 (Unaudited)

Table 18

Fiscal Year	Funded Contact Hours				Grand Total
	Semester Credit Hour			CEU	
	Academic	Voc Tech	Total		
2019	14,735,065	4,961,424	19,696,489	1,843,055	21,539,544
2018	15,688,714	4,844,368	20,533,082	2,019,420	22,552,502
2017	15,443,656	5,298,512	20,742,168	2,296,406	23,038,574
2016	15,527,528	5,762,048	21,289,576	2,146,857	23,436,433
2015	15,873,248	6,122,448	21,995,696	2,290,228	24,285,924
2014	15,931,744	5,822,268	21,754,012	1,980,830	23,734,842
2013	16,237,296	5,744,810	21,982,106	1,933,271	23,915,377
2012	17,354,256	5,822,072	23,176,328	1,798,940	24,975,268
2011	17,802,080	5,924,078	23,726,158	1,914,445	25,640,603
2010	16,652,752	5,680,164	22,332,916	1,880,857	24,213,773

Source: Certified CBM004 & CBM00C.

HOUSTON COMMUNITY COLLEGE SYSTEM  
TRANSFERS TO SENIOR INSTITUTIONS  
2017-2018 GRADUATES\*  
(Includes Only Public Senior Colleges in Texas)  
(Unaudited)

Table 19

	Total Student	Total	Total	Total of all	% of all
	Count	Student	Student		
	Academic	Technical	Tech-Prep	Transfer	Transfer
				Students	Students
1 Angelo State University	8	-	-	8	0.1%
2 Baylor College of Medicine	4	-	-	4	0.0%
3 Lamar University	99	12	-	111	1.0%
4 Midwestern State University	9	5	-	14	0.1%
5 Prairie View A&M University	304	20	-	324	3.1%
6 Sam Houston State University	324	14	1	339	3.2%
7 Stephen F. Austin State University	129	6	-	135	1.3%
8 Sul Ross State University - Rio Grande College	-	1	-	1	0.0%
9 Tarleton State University	13	1	-	14	0.1%
10 Texas A&M International University	4	-	-	4	0.0%
11 Texas A&M University	948	7	2	957	9.0%
12 Texas A&M University - Commerce	17	1	-	18	0.2%
13 Texas A&M University - Corpus Christi	61	3	-	64	0.6%
14 Texas A&M University - Kingsville	26	2	-	28	0.3%
15 Texas A&M University - San Antonio	10	1	-	11	0.1%
16 Texas A&M University - Texarkana	2	-	-	2	0.0%
17 Texas A&M University at Galveston	44	-	-	44	0.4%
18 Texas A&M University System Health Science Center	20	1	-	21	0.2%
19 Texas Southern University	565	40	-	605	5.7%
20 Texas State University	349	11	-	360	3.4%
21 Texas Tech University	284	8	1	293	2.8%
22 Texas Tech University Health Sciences Center	16	1	-	17	0.2%
23 Texas Woman's University	104	6	-	110	1.0%
24 The University of Texas - Rio Grande Valley	12	-	-	12	0.1%
25 The University of Texas at Arlington	140	4	-	144	1.4%
26 The University of Texas at Austin	680	8	1	689	6.5%
27 The University of Texas at Dallas	129	4	-	133	1.3%
28 The University of Texas at El Paso	4	1	-	5	0.0%
29 The University of Texas at San Antonio	240	3	1	244	2.3%
30 The University of Texas at Tyler	175	2	1	178	1.7%
31 The University of Texas Health Science Center at Houston	105	6	-	111	1.0%
32 The University of Texas Health Science Center at San Antonio	9	1	-	10	0.1%
33 The University of Texas M.D. Anderson Cancer Center	66	4	-	70	0.7%
34 The University of Texas Medical Branch at Galveston	55	1	-	56	0.5%
35 The University of Texas of the Permian Basin	18	1	-	19	0.2%
36 The University of Texas Southwestern Medical Center	4	-	-	4	0.0%
37 University of Houston	3,280	156	12	3,448	32.5%
38 University of Houston - Clear Lake	154	11	2	167	1.6%
39 University of Houston - Downtown	1,263	122	3	1,388	13.1%
40 University of Houston - Victoria	283	20	2	305	2.9%
41 University of North Texas	111	7	-	118	1.1%
42 University of North Texas at Dallas	2	-	-	2	0.0%
43 University of North Texas Health Science Center	8	1	-	9	0.1%
44 West Texas A&M University	8	1	-	9	0.1%
	10,086	493	26	10,605	100.00%

HOUSTON COMMUNITY COLLEGE SYSTEM  
CAPITAL ASSET INFORMATION  
LAST FIVE FISCAL YEARS  
(Unaudited)

Table 20

	2019	2018	2017	2016	2015
Number of Academic Buildings*	59	59	52	50	50
Square footage	3,735,824	3,738,088	3,174,752	2,938,234	2,925,810
Number of Administrative Buildings	1	1	1	1	1
Square footage	558,450	558,450	558,450	558,450	558,450
Number of Plant Facilities/Warehouses	7	7	6	6	6
Square footage	145,727	145,727	180,845	180,845	180,845
Number of Parking Structures	6	6	6	6	4
Square footage	1,413,861	1,413,861	1,413,861	1,413,861	1,056,211
Number of Libraries**	15	16	14	14	15
Square footage	155,472	159,290	149,831	149,831	149,831
<u>Libraries</u>					
Number of Volumes					
Circulating books	261,223	261,347	260,723	255,605	252,646
Reference books	20,138	21,323	24,167	26,202	25,541
Media items	21,340	21,985	22,768	22,492	26,426
Magazines, journals, newspapers	465	423	464	527	415
Electronic books/digital video	344,686	295,504	282,510	242,580	207,507
Electronic journals	37,745	33,961	7,100	8,228	23,746
Other (devices, games, maker items, etc.)	3,036	-	-	-	-
Total	<u>688,633</u>	<u>634,543</u>	<u>597,732</u>	<u>555,634</u>	<u>536,281</u>
<u>Transportation</u>					
Bus	-	-	-	-	2
Cars	55	51	42	38	34
Golf Cart	27	21	19	24	24
Utility Carts	15	16	13	10	10
Motorcycle	1	1	1	1	1
Segway	-	-	-	3	3
Mobile Unit	2	2	2	2	2
Sports Utility Vehicle	13	12	11	5	5
Tractors	35	35	33	37	31
Trailers	45	45	40	45	45
Truck	19	19	19	19	19
Truck, Heavy	9	9	5	4	4
Fire Truck	2	2	2	2	2
Cargo Vans	15	15	14	18	22
15 Passenger Vans	2	2	2	2	2
Forklift	12	12	10	10	10
Total	<u>252</u>	<u>242</u>	<u>213</u>	<u>220</u>	<u>216</u>

Note:

\*Buildings include both capital and operating leases.

\*\*They are not free standing buildings and are already included in Academic Buildings.

**SINGLE AUDIT REPORTS AND SCHEDULES OF  
EXPENDITURES OF FEDERAL AND STATE OF TEXAS  
AWARDS**

**REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED  
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Trustees  
Houston Community College System  
Houston, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Houston Community College System (the "System"), as of and for the year ended August 31, 2019, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated December 4, 2019. Our report includes a reference to other auditors who audited the financial statements of Houston Community College Foundation (the "Foundation"), as described in our report on the System's financial statements. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the System's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

To the Board of Trustees  
Houston Community College System

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

#### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Whitley Penn LLP". The signature is written in a cursive, flowing style.

Houston, Texas  
December 4, 2019

**REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE FOR EACH MAJOR FEDERAL AND STATE PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS REQUIRED BY THE UNIFORM GUIDANCE AND THE STATE OF TEXAS *UNIFORM GRANT MANAGEMENT STANDARDS***

To the Board of Trustees  
Houston Community College System  
Houston, Texas

**Report on Compliance for Each Major Federal and State Program**

We have audited Houston Community College System's (the "System") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and State of Texas *Uniform Grant Management Standards* that could have a direct and material effect on each of the System's major federal and state programs for the year ended August 31, 2019. The System's major federal and state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal and state statutes, regulations, and the terms and conditions of its federal and state awards applicable to its federal and state programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the System's major federal and state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and the State of Texas *Uniform Grant Management Standards*. Those standards, the Uniform Guidance and the State of Texas *Uniform Grant Management Standards* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or state program occurred. An audit includes examining, on a test basis, evidence about the System's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal and state program. However, our audit does not provide a legal determination of the System's compliance.

To the Board of Trustees  
Houston Community College System

***Opinion on Each Major Federal and State Program***

In our opinion, the System complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the year ended August 31, 2019.

**Report on Internal Control over Compliance**

Management of the System is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the System's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal and state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal and state program and to test and report on internal control over compliance in accordance with the Uniform Guidance and the State of Texas *Uniform Grant Management Standards*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal or state program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal or state program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal or state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item #2019-001, which we consider to be significant deficiency in the System's internal control over compliance.

The System's response to the finding on internal control over compliance identified in our audit, which is described in the accompanying schedule of findings and questioned costs, was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the System's response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance and the State of Texas *Uniform Grant Management Standards*. Accordingly, this report is not suitable for any other purpose.

*Whitley Penn LLP*

Houston, Texas  
December 4, 2019

HOUSTON COMMUNITY COLLEGE SYSTEM  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED AUGUST 31, 2019

Schedule E

Federal Grantor/Cluster/Program Title/Pass-Through Grantor Pass-Through Grantor's Award Number	CFDA Number	Grant Award #	Expenditures	Pass-Through to Subrecipients
<b>U. S. Department of Education</b>				
Student Financial Assistance Cluster				
Federal Supplemental Educational Opportunity Grants	84.007	P007A184037	\$ 1,575,615	\$ -
Federal Work-Study Program	84.033	P007A184037	1,745,419	-
Federal Pell Grant Program	84.063	P063P183363	85,896,018	-
Federal Direct Student Loans	84.268	P268K193363	74,170,077	-
Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379	P379T193363	6,556	-
<b>Total Student Financial Assistance Cluster</b>			<b>163,393,685</b>	<b>-</b>
TRIO Cluster				
TRIO - Upward Bound	84.047A	P047A171239-17A	344,410	-
TRIO - Upward Bound	84.047A	P047A171255	741,808	-
TRIO - Educational Opportunities Centers	84.066A	P066A160447	263,222	5,947
<b>Total TRIO Cluster</b>			<b>1,349,440</b>	<b>5,947</b>
Pass-Through From:				
Houston - Galveston Area Council				
Adult Education - Basic Grants to States	84.002A	H-GAC 213-19	2,471,612	627,631
Adult Education - Basic Grants to States	84.002A	H-GAC 213-20	550,932	-
Adult Education - Basic Grants to States	84.002A	H-GAC 213-19	402,592	-
Adult Education - Basic Grants to States	84.002A	H-GAC 213-20	49,830	-
Adult Education - Basic Grants to States	84.002A	2819AEL003	77,214	-
<b>Total Adult Education - Basic Grants to States</b>			<b>3,552,180</b>	<b>627,631</b>
Houston Independent School District				
Title 1 Grants to Local Education Agencies	84.010	1060922000	6,000	-
Texas Workforce Commission				
Rehabilitation Services Vocational/Rehabilitation Grants to States	84.126A	3019VRS127	59,217	-
Manpower Demonstration Research Corporation				
Education Research, Development and Dissemination	84.305A	-	1,150	-
Texas Higher Education Coordinating Board				
Career and Technical Education - Basic Grants to States	84.048	BMS#20769	2,316,337	-
Education Research, Development and Dissemination	84.305H	15584	40,943	-
Education Research, Development and Dissemination	84.305H	15526	28,073	-
<b>Total THECB - Career and Technical Education Basic Grants to States</b>			<b>2,385,353</b>	<b>-</b>
<b>Total U.S. Department of Education</b>			<b>\$ 170,747,025</b>	<b>\$ 633,578</b>

See accompanying notes to Schedule of Expenditures of Federal Awards

HOUSTON COMMUNITY COLLEGE SYSTEM  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED  
YEAR ENDED AUGUST 31, 2019

Schedule E

Federal Grantor/Cluster/Program Title/Pass-Through Grantor Pass-Through Grantor's Award Number	CFDA Number	Grant Award #	Expenditures	Pass-Through to Subrecipients
<b>U.S. Department of Commerce</b>				
Minority Business Development Agency - Business Center	11.805	MB16OBD8050023	210,387	-
Minority Business Development Agency - Business Center	11.805	MB18OBD8020081	476,806	-
<b>Total U.S. Department of Commerce</b>			<b>687,193</b>	<b>-</b>
<b>U.S. Department of Housing and Urban Development</b>				
Pass-Through From:				
Houston Housing Authority Jobs-Plus Pilot Initiative	14.895	TX005FJP000614	68,370	-
<b>Total U.S. Department of Housing and Urban Development</b>			<b>68,370</b>	<b>-</b>
<b>U.S. Department of Justice</b>				
Bulletproof Vest Partnership Program	16.607	-	7,763	-
<b>Total U.S. Department of Justice</b>			<b>7,763</b>	<b>-</b>
<b>U.S. Department of Labor</b>				
H-1B Job Training Grants	17.268	AP-27829-15-60-A-48	966,785	406,537
Pass-Through From:				
Texas Workforce Commission WIOA Adult Program (Workforce Innovation and Opportunity Act)	17.258	3118ZOT001	22,804	-
WIOA Dislocated Worker Formula Grants	17.278	2819ATP002	157,592	157,592
WIOA Dislocated Worker Formula Grants	17.278	2818WOS000	77,772	-
<b>Total WIOA Cluster</b>			<b>258,168</b>	<b>157,592</b>
WIOA Dislocated Worker Grants/WIA National Emergency Grants	17.277	2818NDW003	85,851	-
<b>Total U.S. Department of Labor</b>			<b>1,310,804</b>	<b>564,129</b>
<b>U.S. Department of State</b>				
Pass-Through From:				
Northern Virginia Community College Academic Exchange Programs - Undergraduate Programs	19.009	S-ECAGID-16-CA-1061	100,888	-
Undergraduate Programs	19.009	S-ECAGID-19-CA-1055	57,231	-
<b>Total U.S. Department of State</b>			<b>158,119</b>	<b>-</b>
<b>U.S. Department of Transportation</b>				
Commercial Motor Vehicle Operator Safety Training Grants	20.235	FM-DTG-0068-18-01-00	96,178	-
<b>Total U.S. Department of Transportation</b>			<b>96,178</b>	<b>-</b>
<b>Institute of Museum and Library Services</b>				
Pass-Through From:				
Texas State Library & Archives Commission Grants to State	45.310	TXT-19003	24,988	-
<b>Total Institute of Museum and Library Services</b>			<b>24,988</b>	<b>-</b>

See accompanying notes to Schedule of Expenditures of Federal Awards

HOUSTON COMMUNITY COLLEGE SYSTEM  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED  
YEAR ENDED AUGUST 31, 2019

Schedule E

Federal Grantor/Cluster/Program Title/Pass-Through Grantor Pass-Through Grantor's Award Number	CFDA Number	Grant Award #	Expenditures	Pass-Through to Subrecipients
<b>National Science Foundation</b>				
Mathematical and Physical Sciences	47.049	1460564	138,875	11,383
Education and Human Resources	47.076	1501938	28,000	-
Pass-Through From:				
Texas Southern University Education and Human Resources	47.076	K14-377	36,406	-
University of Houston Education and Human Resources	47.076	R-19-0000	21,565	-
Texas A&M Education and Human Resources	47.076	DGE-1754101	19,665	-
<b>Total National Science Foundation</b>			<b>244,511</b>	<b>11,383</b>
<b>U. S. Department of Health and Human Services</b>				
Pass-Through From:				
University of Texas at Austin Substance Abuse and Mental Health Services - Projects	93.243	UTA 17-000810	325	-
Substance Abuse and Mental Health Services - Projects	93.243	UTA 17-000810	23,778	-
Total - Substance Abuse and Mental Health Services - Projects			24,103	-
Pass-Through From:				
Houston - Galveston Area Council Temporary Assistance for Needy Families	93.558	H-GAC 213-19	162,183	-
Texas Workforce Commission Temporary Assistance for Needy Families	93.558	2819ATP002	16,950	16,950
Temporary Assistance for Needy Families	93.558	2817SSF001	(30,616)	-
Temporary Assistance for Needy Families	93.558	2818SMP001	7,000	-
Total - Temporary Assistance for Needy Families			(6,666)	16,950
<b>Total U. S. Department of Health and Human Services</b>			<b>179,620</b>	<b>16,950</b>
<b>U. S. Department of Homeland Security</b>				
Pass-Through From:				
Federal Emergency Management Agency (FEMA) Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	-	620,154	-
<b>Total U.S. Department of Homeland Security</b>			<b>620,154</b>	<b>-</b>
<b>Corporation for National and Community Service</b>				
AmeriCorps	94.006	-	105,381	-
<b>Total Corporation for National and Community Service</b>			<b>105,381</b>	<b>-</b>
<b>Total Expenditures of Federal Award</b>			<b>\$ 174,250,106</b>	<b>\$ 1,226,040</b>

See accompanying notes to Schedule of Expenditures of Federal Awards

HOUSTON COMMUNITY COLLEGE SYSTEM  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES USED IN PREPARING THE SCHEUDLE

The Schedule of Expenditures of Federal Awards presents the federal grant activity of the System for the year ended August 31, 2019. The schedule is presented using the accrual basis of accounting. The expenditures reported in the schedule represent funds which have been expended by the System for the purposes of the award and may not have been reimbursed by the funding agencies as of the end of the fiscal year. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Separate accounts are maintained for the different awards to aid in the observance of limitations and restrictions imposed by the funding agencies. The System has followed all applicable guidelines issued by various entities in the preparation of the schedule. Since the System utilizes an agency approved Indirect Recovery Rate, it has elected not to use the 10% de Minimis cost rate as permitted under the Uniform Guidance, Section 200.414.

NOTE 2 – FEDERAL ASSISTANCE RECONCILIATION

Revenues - Federal Grants and Contracts – per Schedule A	\$	13,664,066
Add: Non-Operating Federal Revenue - per Schedule C		<u>87,471,633</u>
Total Federal Revenues per Schedules A and C		101,135,699
Reconciling items:		
Add: Direct Student Loans		74,170,077
Less: Programs not subject to Federal Single Audit		(1,675,824)
Add: Prior year expenses related to Hurricane Harvey FEMA award		<u>620,154</u>
Total Federal Revenues per Schedule of Expenditures of Federal Awards		<u><u>\$ 174,250,106</u></u>

NOTE 3 – EXPENDITURES NOT SUBJECT TO FEDERAL SINGLE AUDIT

The following federal funds were not subject to federal single audit –

CFDA 64.027 Post 9/11 Veterans Educational Assistance	\$	<u>1,675,824</u>
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These funds were not subject to a federal single audit per the Catalog of Federal Domestic Assistance.

NOTE 4 – STUDENT LOANS PROCESSED AND ADMINISTRATIVE COSTS RECOVERED

Federal Grantor/CFDA Number/Program Name	New Loans Processed	Administrative Cost Recovered	Processed & Administrative Cost Recovered
U.S. Department of Education:			
84.268 Direct Loans	\$ 74,170,077	\$ -	\$ 74,170,077

HOUSTON COMMUNITY COLLEGE SYSTEM  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 5 - AMOUNTS PASSED THROUGH BY THE SYSTEM TO SUBRECIPIENTS

The following amounts were passed-through to the listed sub-recipients by the System and are included in the Schedule of Expenditure of Federal Awards.

The below amount was funded by the U.S. Department of Education TRIO - Educational Opportunities Center grant; CFDA 84.066A.

Baker Ripley	\$ 5,947
Total Passed-through to Subrecipient	<u>\$ 5,947</u>

The below amounts were funded by the U.S. Department of Education Adult Education Basic Grant Program (Adult Education and Family Literacy Act); CFDA 84.002.

Association for Advancement of Mexican American Community Family Center	\$ 355,780
	<u>271,851</u>
Total Passed-through to Subrecipients	<u>\$ 627,631</u>

The below amounts were funded by the U.S. Department of Labor H-1B Job Training grant; CFDA 17.268.

CVS Health Corporation	\$ 64,218
Dallas County Community College District	<u>342,319</u>
Total Passed-through to Subrecipients	<u>\$ 406,537</u>

The below amount was funded by the U.S. Department of Labor WIOA Dislocated Work Formula grant; CFDA 17.278

Joint Apprenticeship Training Committee	\$ 157,592
Total Passed-through to Subrecipient	<u>\$ 157,592</u>

The below amounts were funded by the National Science Foundation Mathematical and Physical Sciences grant; CFDA 47.049.

Rice University	\$ 4,490
The University of Texas Health Science Center	2,700
University of Houston	<u>4,193</u>
Total Passed-through to Subrecipients	<u>\$ 11,383</u>

The below amount was funded by the U.S. Department of Health and Human Services Temporary Assistance for Needy Family grant; CFDA 93.558

Houston Area Sheet Metal Joint Apprenticeship Committee	\$ 16,950
Total Passed-through to Subrecipient	<u>\$ 16,950</u>

HOUSTON COMMUNITY COLLEGE SYSTEM  
SCHEDULE OF EXPENDITURES OF STATE OF TEXAS AWARDS  
FOR THE YEAR ENDED AUGUST 31, 2019

Schedule F

State Grantor Program Title	Grantor's Number	Expenditures and Pass-Through Disbursements
<b>Texas Higher Education Coordinating Board</b>		
Work-Study Mentorship Program	11833/11912	3,353
Work-Study Mentorship Program	-	3,353
Work-Study Mentorship Program	15558	16,230
2017-18 Texas Work-Study Mentorship Program	18882	24,907
Houston Pathways Initiative-College for Readiness	22000	14,089
Texas College Work Study Program	-	250,427
Texas Educational Opportunity Grant	-	4,046,629
<b>Total Texas Higher Education Coordinating Board</b>		<b><u>4,358,988</u></b>
<b>Texas Workforce Commission</b>		
Apprenticeship Training Program	2819ATP002	269,568
FY19 Skills for Small Business Program	289SSD003	4,165
FY17 Skills for Small Business Program	2817SSD002	7,193
TWC Texas Injection Molding, LLC	2819SDF001	43,736
TWC-Skills for Transition Program	2817 SDF006	(940)
Sumner Manufacturing Company, LLC	2817SDF008	79,766
Texas Fast Start Program IV	2817GRF001	49,947
Pass-Through From:		
Houston - Galveston Area Council ABE - GED	H-GAC 213-19	<u>441,564</u>
<b>Total Texas Workforce Commission</b>		<b><u>894,997</u></b>
<b>Texas State Board of Public Accountancy</b>		
Fifth Year Accounting Student	-	<u>3,800</u>
<b>Total Texas State Board of Public Accountancy</b>		<b><u>3,800</u></b>
<b>Total State Financial Assistance</b>		<b><u>\$ 5,257,785</u></b>

See accompanying notes to Schedule of Expenditures of State of Texas Awards.

HOUSTON COMMUNITY COLLEGE SYSTEM  
NOTES TO SCHEDULE OF EXPENDITURES OF STATE OF TEXAS AWARDS

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES USED IN PREPARING THE SCHEDULE

The Schedule of Expenditures of State of Texas Awards presents the activity of the state award programs of the System for the year ended August 31, 2019. Expenditure reports to funding agencies are prepared on the award period basis. The expenditures reported in Schedule F above represent funds that have been expended by the System for the purposes of the award. Separate accounts are maintained for the different awards to aid in the observance of the limitations and restrictions imposed by the funding agencies. The System has followed all applicable guidelines issued by various entities in the preparation of the schedule.

NOTE 2 – STATE ASSISTANCE RECONCILIATION

Revenues - State Grants & Contracts - per Schedule A	\$ 5,257,785
Reconciling items:	
None	-
Total State revenues per Schedule of Expenditures of State of Texas Awards	<u>\$ 5,257,785</u>

NOTE 3 – AMOUNTS PASSED-THROUGH BY THE SYSTEM TO SUBRECIPIENTS

The following amounts were passed-through to the listed sub-recipients by the System and are included in the Schedule of Expenditure of State Awards.

The below amounts were funded by the TWC Apprenticeship Training Program/Chap. 133 grant.

FTI of District Council 88	\$ 7,833
Houston Area Sheet Metal Joint Apprenticeship Committee	57,102
Joint Apprenticeship Training Committee of Pipe Fitters LU 211	88,588
Texas IronWorkers, Houston Branch	<u>48,668</u>
Total Passed-through to Subrecipients	<u>\$ 202,191</u>

**HOUSTON COMMUNITY COLLEGE SYSTEM**  
*SCHEDULE OF FINDINGS AND QUESTIONED COSTS*  
*For the Year Ended August 31, 2019*

**I. Summary of Auditors' Results**

**Financial Statements**

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

**Federal and State Awards**

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	Yes, #2019-001
Type of auditors' report issued on compliance with major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) and Uniform Grant Management Standards?	Yes, #2019-001

Identification of major programs:

Name of Federal Program or Cluster	CFDA Numbers
Student Financial Aid Cluster	
Federal Supplemental Educational Opportunity Grants	84.007
Federal Work-Study Program	84.033
Federal Pell Grant Program	84.063
Federal Direct Student Loans	84.268
Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379
TRIO Cluster	
Educational Opportunity Grant	84.066A
Upward Bound	84.047A
<b>Name of State Program</b>	
Texas Educational Opportunity Grant Program	N/A
Texas College Work-Study Program	N/A

**HOUSTON COMMUNITY COLLEGE SYSTEM**  
*SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)*  
*For the Year Ended August 31, 2019*

**I. Summary of Auditors' Results (continued)**

Dollar Threshold used to Distinguish between  
 Type A and B Programs

Federal	\$3,000,000
State	\$300,000

Auditee qualified as a low-risk auditee

Federal	Yes
State	No

**II. Financial Statement Findings**

There are no current year findings.

**III. Federal and State Award Findings and Questioned Costs**

This section identifies material weaknesses, significant deficiencies, and instances of non-compliance, including questioned costs, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirement, Cost Principles, and Audit Requirement for Federal Awards, Section 200.516 *Audit Findings*.

#2019-001

<b>Compliance Requirement:</b>	Eligibility
<b>Federal Program:</b>	Student Financial Aid (SFA) Cluster
<b>Award Numbers:</b>	CFDA 84.007 P007A184037, CFDA 84.033 P033A184037, CFDA 84.063 P063P183363, CFDA 84.268 P268K193363, and CFDA 84.379 P379T193363
<b>Type of Finding:</b>	Significant Deficiency
<b>Criteria:</b>	Financial aid administrators (FAA) have the authority, through <i>Section 480(d) of the Higher Education Act</i> , to change a student's status from dependent to independent status. According to Student Financial Aid Application and Verification Guide, an FAA may do dependency overrides on a case-by-case basis for students with unusual circumstances. If the FAA determines that an override is appropriate, she must write out the determination and retain it and the supporting documentation. Houston Community College uses a Dependency Override Request form to determine if the students meet the qualified unusual circumstances. The form is attached to the supporting documents and is signed by the student and approved by the financial aid representative.

**HOUSTON COMMUNITY COLLEGE SYSTEM**  
*SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)*  
*For the Year Ended August 31, 2019*

**Condition:** During our review of supporting documents related to dependency override, we noted 3 out of 12 instances on which there was no electronic or manual signature as evidence that the determination of eligibility to change the status from dependent to independent was approved by the financial aid administrator.

**Cause:** Improper implementation of internal control.

**Effect:** Financial administrators are allowed to make professional judgement decisions for special or unusual family or student circumstances. Circumstances requiring professional judgement decisions must be analyzed on a case-by-case basis. Without evidence of review and approval, there is no control activity that mitigates the risk of inappropriate transactions.

**Questioned Costs:** None reported

**Repeat Finding:** No

**Recommendation:** We recommend the System to ensure that their procedures surrounding their controls related to dependency override are communicated to all campuses for proper implementation.

**Views of Responsible Official:**

Federal regulations do not require an aid administrator to sign a dependency override form but must document the reason for the decision. HCC financial aid administrators use a form to review dependency override requests that includes a signature line for the reviewer. Three out of twelve student records documented the reason for the decision but did not have the reviewers' signature on the form. Auditors found three exceptions because HCC's process requires the aid administrator to sign off on approved dependency overrides.

Prior to the findings, all financial aid advisors at the campus locations were reviewing dependency overrides by assigned caseloads.

**HOUSTON COMMUNITY COLLEGE SYSTEM**  
*SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS*  
*For the Year Ended August 31, 2019*

Federal regulations, Title 2 U.S. Code of Federal Regulations Section 200.511 states, "The auditee is responsible for follow-up and corrective action on all audit findings. As part of this responsibility, the auditee must prepare a summary schedule of prior audit findings." The summary schedule of prior audit findings must report the status of the following:

- All audit findings included in the prior audit's schedule of findings and questioned costs and
- All audit findings reported in the prior audit's summary schedule of prior audit findings except audit findings listed as corrected.

**I. Prior Year Findings**

Not Applicable

**HOUSTON COMMUNITY COLLEGE SYSTEM**  
**CORRECTIVE ACTION PLAN**  
*For the Year Ended August 31, 2019*

Federal regulations, Title 2 U.S. Code of Federal Regulations §200.511 states, "At the completion of the audit, the auditee must prepare, in a document separate from the auditor's findings described in §200.516 Audit findings, a corrective action plan to address each audit finding included in the current year auditor's reports."

**I. Corrective Action Plan**

**#2019-001**

**Compliance Requirement:** Eligibility

**Federal Program:** Student Financial Aid (SFA) Cluster

**Award Numbers:** CFDA 84.007 P007A184037, CFDA 84.033 P033A184037, CFDA 84.063 P063P183363, CFDA 84.268 P268K193363, and CFDA 84.379 P379T193363

**Type of Finding:** Significant Deficiency

**Response:** Prior to the findings, all financial aid advisors at the campus locations were reviewing dependency overrides by assigned caseloads. Since the finding, the financial aid office has made process changes and conducted in-depth training to avoid future findings.

1. Dependency Overrides are assigned to four positions (2 Campus Financial Aid Coordinators and 2 Campus Financial Aid Regional Managers) and are no longer completed by the campus financial aid advisors. Employees in these positions are fully aware of the signature requirement.
2. The Executive Director has held two different trainings in which this finding was discussed. Special Circumstance and Dependency Override training held on June 18, 19, and 20, 2019. Verification training held on September 26 and 27, 2019.
3. Twice a month, on Wednesday mornings, all financial aid staff are mandated to listen to a podcast series called "WOW Wednesdays" in which announcements and updates are provided to all FA staff. Following the podcast, all FA staff complete a mandatory follow-up questionnaire. The dependency override finding was the on August 7, 2019 podcast and was question number 5 on the mandatory questionnaire.

Campus FA Coordinators and Regional Managers are responsible to ensure that this requirement is completed.

**Contact Person:** JoEllen Soucier, Executive Director of Financial Aid

**Estimated Completion Date:** Immediately and as stated above